# PROSPECTS OF SMALL SCALE INDUSTRY IN CHANGING GLOBAL SCENARIO

Thesis Submitted for the degree of

## DOCTOR OF PHILOSOPHY

Submitted by

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# Preface

Small sector forms an integral and vital part of Indian National Economy. No one can minimize the importance of large industry in economic growth of a country due to host of goods produced by the large sector, but if small can not survive with the large, it is equally true that large industry can not prosper without small industry as they are critically dependent on the small industry to provide quality goods. This sector accounts for about fifty per cent of the total industrial production and more than eighty percent of the employment in the industrial sector. While, small scale sector in other developed countries like, Japan, plays major role in their economic strength but Indian small scale sector is not performing at par despite of tremendous government support. There are various causes of poor performance of Indian small scale sector ranging from bad infrastructural facilities to flows in reservation policy.

In the era of global competitiveness it is imperative to review various aspects of small scale industry and find out ways and means for improvement so as to help the global world. The proposed study as under taken to review the perspective of small scale sector in global environment, its current position, problems, potential and provide suggestive measures.

I owe the greatest debt to my most respectable and learned teacher Dr. A.K. Malviya, D. Phil, D. Litt, Senior Lecturer, Department

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# INTRODUCTION

Small enterprises have a strategic role to play in the economic and social development of the developing countries. These industries are the seed bed for new entrepreneurs. There is no denying the fact that the small scale industries have enoromous job potentiality with low rate of investment. Being widely dispersed, these are capable of remedying the grave regional imbalances of industrial development. Similarly, these industries being under the ownership and control of the producers, themselves dispersed through out the country can ensure an equitable distribution of income and wealth. Their contribution in the socio-economic transformation of developing countries can not be under estimated. In other words, they are the instruments of change, growth and diversification.

A country like ours, where there is a scarcity of capital and a lot of unemployment, the rural and small scale industries have a considerable importance in terms of income and employment generation due to their labour intensive nature.

One of the principals of planning is progressive reduction of unemployment and removal of poverty in the country. These are the most formidable problems of India. Every policy and plan begins from the issue of such curses. However, both have global coverage particularly in less development countries, but in our country the situation is horrible due to the pressure of population explosion. Industrialization is the solu-

tion of unemployment. Poverty also an important aspect of economic development concept.

Heavy industrialization needed more capital and absorbed few persons. However, a country like India has surplus labour force and scarcity of capital, the capital-intensive technique cannot give better result due to aforesaid situation. It is a well know fact small scale industries can play an important role in India's economy particularly in income and employment generation. The projects under these industries being labour intensive and of short gestation period should be view as a corrective measure to inflationary pressure in a situation where a large chunk of national resource are required to be invested in the establishment of capital intensive projects of long gestation period.

The importance of tiny and small scale industries in the economy of a country is not confined to India alone but encompasses the global trend including both the developing and developed countries. Even industrially advanced countries like Canada, Japan, United Kingdom, Italy, South Korea and Indonesia etc. The emphasis is on the small scale industry holding the key to growth with equality. The small scale industry is an integrated part of the India. It have a crucial role to play in our nation in reducing the incidence of unemployment and under employment, increasing national income in meeting the shortage of consumer goods in accelerating economic growth by making an optimum use of natural and human resources in promoting balanced regional

development in reducing inequalities in the distribution of national wealth, in reducing the present excessive pressure on the land and over crowding in urban areas, in proper exploitation of local resources.

**Concept and Definition**

An economically backward country like ours has certain advantages over advanced countries especially in skill and labour intensive industries. The workers are demanding large share of the prosperity of advance countries and in general the cost of production is rising, while exports are declining. Due to this, some of the more affluent companies of the west are even setting-up their subsidiaries in under-developed countries to utilize low cost labour.

One of the most attractive features of small industry is ability to create new jobs at minimum cost. ILO has estimated that, by the end of the decade, there are likely to be 100 million unemployed in the developing countries, India alone accounting for more than 20 million of them. In development planning employment opportunities have given first priority. In developing countries like India, where capital in scarce and labour is plentiful pose a special problem. The labour available is 'unproductive' that is, unskilled and can do only the simplest of jobs. Gandhiji had advocated the use of the spinning wheel, not on grounds of efficiency but-on simplicity and easy availability and also because it makes the unemployed rural housewife turn to a productive occupation, without being idle as she is obliged to do. He considered mechanization 'as an

evil when there are 50 crore of living machines remaining idle or partially idle. One if the celebrated personalities namely E.F. schumacher has put forward the most comprehensive definition regarding small scale industries by saying "small in beautiful." *

In an Asian Development Review Mr.A.H.M. Nuruddin chowdhry has rightly observed, "In many Asian developing countries, industrialisation has not succeeded in achieving the intended objective of absorbing surplus labour, alleviating poverty and bringing about a more balanced regional growth." As a result, the small sector has been denied a pace under the sun in the process of development of many Asian Economies and India has been one of them where it has been neglected by the authorities or got step-mother treatment. This trend should be reversed in the decade of 90s. In this decade, the development of small scale sector considered as more vital and appropriate alternative to promote industrialization in Asian economies in general and India in particular. Small scale sector serves not only to create employment opportunities but at the same time earns an appreciable, amount of badly needed foreign exchange.

In Canada over 50 per cent of the labour force work for small business. In the words of a government document "small owner managed firms" are a mainstay of employment in cities and towns across the country. They supply goods and services essential to consumers and other business and they demonstrate the innovation and entrepre-

R.S. Jalal : Industrial Entrepreneurship and small scale industries, Anmol Publications, 1991 Pg 3 - 4.

neurship from which successful enterprise must spring. There is a minister for small business and a small business secretariat within the Department of Industry Trade, and Commerce to review programmes and policies, towards that sector.

In Italy, the health of the economy is maintained; in spite of political instability and industrial unrest, by medium sized privately owned firms and those below down to cottage industries where individual initiative and motivation have fully play.

China has a small industry sector, which provided 60 percent of its fertilizers, 57 percent of its cement. 28 per cent of its pig iron, 13 per cent of its crude steel, 67 per cent of its agricultural machinery and 34 per cent of its electric power; it continues to rely on Mao's aphorism of 'walking on two legs' one being small and the other large.

Indonesia is paying particular attention to the growth of its small industry through the reservation of 126 items for exclusive production in the small sector and the implementation of the 'Bapak Angkal' scheme to link large and small units in a productive relationship.

In Japan, small business is the foundation on which its. Industrial strength has been built it accounts for 37.2 million employees and 56.1 per cent of the total value added in manufacturing and 79.9 per cent of retail sales. Through a complex system sub contracting, Japan combines the advantage small production and large volume of marketing.

A report on small firms in the UK by Bolton and his associates in 1971 says that 'if small firms did no exist, it would be necessary to invent them; the recommendation of the report lead to the establishment of a Department of small firms in Ministry of Industry. A recent study by the small Business Research Trust in the U K indicated that small companies had created between 800,000 and 1.1 million new jobs during the post six year small firms are regarded as crucial to Britain's economic future, as a breading ground for new entrepreneurial talent and new ideas, with flexibility of response and ability to adopt most rapidly in a changing business environment.

Thus from the above discussion it is clear that the interest evidence in the potential of small industry is not confirmed to one country or continent, there is feeling every where, that in today's world, it is the small industry that holds the key to growth with equity.

The definition of small-scale industry varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country. As a result, there are at least fifty different definition of SSIs found and used in different countries. All these definition either relate to capital or employment or both or any other criteria, usually SSI are taken to be those units which employ more than 5 but less than 50 or 100 workers. India is among the few countries that has used investment ceiling to define small scale industries. In India

itself, different definition is used for different purpose. The Factories Act defines a factory as one, which employed 10 workers, or more if the unit used power or go workers or more if does not power. All such units have to be registered under the factories Act and are subject to various labour laws including the provision of medical insurance and some social security. This is known as registered sector.

The fiscal commission for the first time, in 1950 defined a small-scale industry as one, which is operated mainly with hired labour usually 10 to 50 hands. At present units which have a less than Rs. 3 million turnover are fully exempt from excise taxes and there in a sliding scale of concessions available for small scale enterprises which have a turnover of up to Rs. 30 million. Table 1.1 provided the history of evolution of investment limits for SSI since 1950.The attempt has been to keep revising the investment limits to keep up with inflation and hence to perceive the real value of investment limits.

In 1960 the development of small-scale industries gathered momentum under the aegis of the central small industries organization, a need was again felt to modify the definition further. This time the employment limitation was found to stand in the way of the promotion of the programmes for the small-scale sector. The small-scale industries board had kept in mind the necessity for maintaining a certain amount of flexibility in its interpretation. The board welcomed the Government s decision to revise the definition. The new definition as per ministry of com-

merce and industries letter No.12-SSI(A)(136)/57,dt 4th January,1996,was

"Small-Scale industries will include all industrial units with a capital investment of not more than Rs.5 lakhs, irrespective of the number of persons employed."

The capital investment for the purpose of the definition meant investment in such fixed assets as land, buildings, machinery and equipment .The change in definition marked an important turning point in the programmes of small-scale industries.

In 1964 with a view to making the definition of small-scale industries as simple as possible for operational purpose, the small scale industries board appointed a sub-committee (1962) to review the definition of small scale industries and make recommendations on the following question.

**Table1.1**

***Evaluation of Investment Limits for Small Scale Industries***

| Year | Investment Limits | Additional Condition |
|---|---|---|
| 1950 | Up to Rs.0.5 million in fixed assets | Less than 50/100 person with or without power |
| 1960 | Up to Rs.0.5 million in Fixed assets | No condition |
| 1966 | Up to Rs. 0.75 million in Plant and machinery | No Condition |

| | | |
|---|---|---|
| 1975 | Up to Rs.1 million in Plant and machinery | No condition |
| 1980 | Up to Rs.2 million in Plant and machinery | No condition |
| 1985 | Up to Rs.3.5 million in Plant and machinery | No condition |
| 1991 | Up to Rs.6 million in Plant and machinery | No condition |
| 1997 | Up to Rs.30 million in Plant and machinery | No condition |
| 1999 | Up to Rs.10 million | No condition |
| 2000 | Up to Rs.10 million in Plant and machinery | No condition |

Source: SSI Policy in India in NCAER (1996)

"To what extent the present definitions of Rs. 5 lakhs for general and Rs.10 lakhs for ancillary industries should be modified the committee should consider, if the present difference in definition between ancillary and non-ancillary industries should be abolished, making one definition applicable to all. The committee may also consider whether certain facilities, like credit and hire-purchase could be reserved only for units with lower capital investment if the capital ceiling to be increased from Rs. 5 lakhs." *

The report of the sub-committee was considered by the small-scale industries board at 23rd meeting held in October 1962.

In 1966 small-scale industries Board at its 24th meeting recommended the following definition.

"Small-scale industries will include all industrial units with a capital investment of not more than Rs.7.5 lakhs irrespective of the number of persons employed, capital investment for this purpose will mean investment in plant and machinery only"**. Accordingly, the value of the plant and machinery had to be calculated on the original price. It also denominated the limit of the number of persons to be employed in a firm.

Due to increase in the prices of capital equipment and of replacement costs, the need for in up ward revision of the present ceiling on capital investment in the definition for small-scale industries namely,Rs.10 lakhs had become obvious. Need of revising of the definition was arise. In the 32nd meeting the small-scale board held in November 1974.It is recommended in the meeting that the ceiling on investment in plant and machinery should be raised from the existing level of Rs.7.5 lakhs to Rs. 10 lakhs and that of ancillary units from Rs.10 lakhs to Rs.15 lakhs. The revised definition recommended by the board was as under.

**(i) Small-Scale Industries**

"Undertaking having investments in fixed assets in plant and machinery not exceeding Rs. 10 lakhs."

Small scale industrial units had been agitating since 1975 for an increase in investment limit of Rs. 10 lakhs they argued that Rs. 10 lakhs would not be sufficient to buy half the plant and equipment in 1980, which they could buy when limit was raised in 1975.This, has resulted in may illegal and unfair practices.

In view of this representation by small units and in order to boost their development and ensure their growth, the Government raised the level of investment in tiny units, small scale units and ancillary as under.

- The investment limit for tiny units was increased from Rs.1 lakh to Rs.2 lakh.
- The limit of investment in small-scale units was raised from Rs.10 lakhs to 20 lakhs.and
- The limit of investment in the ancillaries was increased from Rs. 15 lakhs to 25 lakhs.

This would denominate the tendency to circumvent these limits by understanding the value of machinery and equipment, classification of accounts or resort to the establishment of Benami units. The enhancement of the limit of investment in plant and machinery would also help genuine small-scale units, particularly those which are proposed to be set up by young and technically qualified entrepreneurs this measure would facilitate the long-over due modernization of many existing small scale units.

In March 1985,the Government has again raised the investment limits of small scale units to Rs.35 lakhs and for ancillary units to Rs.45 lakhs.

As per the Industrial policy statement of may 1990,the investment ceiling in plant and machinery for small scale industries (Fixed in 1985) has been raised from Rs.35 lakhs to Rs.60 lakhs and corresponding for ancillary units from Rs.45 lakhs to Rs.75 lakhs. Investment limit for tiny units has been increased from Rs.2 lakhs to Rs. 5 lakhs. according to the modified definition, ancillary units in one, which sells not less than 50 percent of its manufactures to one or more industrial units.

During 1997, on the recommendation of Abid Hussain Committee, the Government has raised the investment limit on plant and machinery for small units and ancillaries from Rs.60/70 lakhs to Rs.3 crore and that for tiny units from Rs.5 lakhs to Rs. 25 lakhs.

In 2000, Government reduced investment limit on plant and machinery from Rs. 3 crore to Rs. 1 crore but retained that of tiny units as Rs.25 lakhs.

This definition in made under the Industrial Development Regulation Act (IDR Act). The same Act also empowers the government to delineate industrial sectors for small industry reservations. The current statement of the investment ceiling for small industries

According to Government of India Ministry of Industry (Department of Industrial Policy and Promotion)

Small scale industrial undertaking in which the investment in fixed asset in plant and machinery whether held on ownership terms on lease or on hire purchase does not exceed Rs 10 million. (Subject to the condition that the units is not owned, controlled or subsidiary of any industrial undertaking) as shown in Table 1.2

**Table 1.2**

***Investment Ceilings For Small Scale Industry.***

| **Type of Small** | **Investment Limit** | **Remarks** |
|---|---|---|
| Small scale Industry | Rs 10 million<br>and machinery | Historical cost of plant |
| Ancillary | Rs 10 million | At least 50 percent of its output should go to other industrial undertaking |
| Export oriented | Rs 10 million | Obligations to export 30 |

| | | percent of production |
|---|---|---|
| Tiny enterprise | Rs 2.5 million | No location limits |
| Service and business Enterprises | Rs.0.5 million | No location limits |
| Women Enterprises | Rs 10 million | 51 percent equity holding by women |

Source: Various Economic Surveys Govt. of India

**Explanation:** For the purpose of this note: -

**Note: 1**

(a) "Owned" shall have the meaning as derived from the definition of the expression "Owner" specified in clause (1) of section 3 of the said Act;

(b) "Subsidiary" shall have the same meaning as in clause (47) of section 2,read with section 4, of the companies Act, 1956.

(C) The expression "Controlled by any other industrial undertakings" means as under: -

- Where two or more industrial undertaking are set up by the same person as a proprietor each of such industrial undertakings shall be considered to be controlled by the other industrial undertaking or undertakings,.

- where two or more industrial undertakings are set up as partnership firms under the India. Partnership Act, 1932 (1 of 1932) and one or more partner are common partner or partners in such firms, each such undertaking shall be considered to be controlled by other undertaking or undertakings,

- Where industrial undertaking are set up by companies under the companies Act,1956 an industrial undertaking shall be considered to be controlled by other industrial undertaking if :-

(a) The equity holding by other industrial undertaking in it exceed twenty four percent its total equity: or

(b) The management control of an undertaking is passed on to the other industrial undertaking by way of the Managing Director of the first mentioned undertaking being also the Managing Director or Director in the other industrial undertaking or the majority of Directors on the Board of the first mentioned undertaking being the equity holders in the other industrial undertaking in terms of the provisions of the following terms (a) and (b)of sub-clause (iv) :

(iv) The extent of equity participation by other industrial undertaking or undertaking in the undertaking as sub-clause (iii) above shall be worked out as follows: -

(a) The equity participation by other industrial undertaking shall include both foreign and domestic equity:

(b) Equity participation by other industrial undertaking shall mean total equity held in an industrial undertaking or undertaking even if the person concerned is a director in other industrial undertaking or undertakings:

(c) Equity held by a person, having special technical qualification an experience, appointed as a director in a small scale industrial undertaking to the extent of qualification shares of so provided in the Articles of association, shall not be counted in the computing the equity held by other industrial undertaking even if the person concerned is a director in of has industrial undertaking or undertaking

(v) Where an industrial undertaking is a subsidiary of or is owned or controlled by, any other industrial undertaking or undertaking in terms of sub-clauses (i) : (ii) or (iii) and if the total investment in fixed asset in plant and machinery of the first mentioned industrial undertaking and the other industrial undertaking or undertaking clubbed together exceed the limit of investment specified in paragraphs (1) or (2) of this notification as the case may be, none of these industrial undertaking shall be considered to be a small scale or ancillary industrial undertaking

**Note-2**

(a) In calculating the value of plant and machinery are new or second hand, shall be taken into account

(b) In calculating the value of plant and machinery, the following

shall be excluded, namely:

(i) The cost of equipment such as tools, figs, dies, mould and spare parts for maintenance and the cost of consumable store:

(ii) The cost of installation of plant and machinery.

(iii) The cost of research and development equipment and pollution coulialled'2 wseffxcddsre equipment.

(iV) The cost of generation sets and extra transformer installed by the undertaking as per the regulations of state Electricity Board.

(v) The bank charges and service charges paid to the National small Industries Corporation or the states Small Industries Corporations.

(vi) The cost involved in procurement or installation of cable, wiring, bus bars, electrical control panels (not those mounted on industrial machine), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures of.

(vii) The cost of Gas producer plants.

(viii) Transportation changes (excluding of sales tax and excise) for indigenous machinery from the place of manufacturing to the site of the factory of.

(ix) Charges paid for technical know how for creation of plants

and machinery.

(x) Cost of such storage tank which store raw material, finished products only and are not linked with manufacturing process:

(xi) Cost of fire fighting equipments

(c) In the case of imported machinery, the following shall be included in calculating the value, namely: -

(i) Import duty (excluding miscellaneous expenses as transportation from the part to the site of the factory, demonize paid at the part.)

(ii) The shipping charges

(iii) Customs clearance charges

(iv) Sales tax

Every industrial undertaking which has been issued a certificate of registration udder section 10 of the said Act or license sector 11,11A and 13 of the said Act by the central government and are covered by the provision of paragraph (1) and (2) above relating to the ancillary or small scale industrial undertaking, may be registered at the discretion of the owner, as such, within a period of one hundred and eighty day from the date of publication of this notification in the official gazette.

**Definition Abroad**

Small scale industries are defined differently in different coun-

tries depending upon the size and volume of growth. In the UK, small business enterprises has no single or precise definition but is distinguished with reference to several factors including the stages of development, the specific nature of business, the capacity to creates employment, the turnover limit, eligibility to the loan guarantee scheme and tax exemption limits.

In the **USA,** small business administration has been established under the small Business Administration Act, 1953,which define small business as one which is independently owned and operated and not dominant in its fields of operation; In the USA 98 percent of these are small retail and service business. Small companies in the USA employ 35 percent of the private sector workforce, posses one-fourth of their assets, produce 38 percent of the US GNP and account for 40 percent of business sales.

In **China** small industries are less quantity and vary with the product they are designed to mobilize local raw materials, local skills, local finance and local market.

In **Korea** small and medium Industry is defined as any unit (1) in manufacturing with more then five and less than 200 employees or with total amount of less than 50 million an (2) in mining with more than five and less than 300 employees with assets of less than 50 million man

In **Indonesia** there is No of differentiation between small scale

enterprise and cottage enterprise. The World Bank has characterized the small scale industries in Indonesia hybrid of traditional and modern industries.

In **Italy** units have capital investment of not more than 1500 million lire and employing not more than 500 workers are considered has small scale industries

In **Taiwan** in the manufacturing and processing sector (including handicrafts) in business employing less than 100 workers or with, assets worth NT$5 million is small industry.

In **Japan,** however, were small industries are highly developed according to the small enterprises credit insurance law (Dec. 1950), Small enterprise refers to the companies with not more than 200 persons regularly employees or co-operatives engaged in industries as designated by cabinet order." Only those units are officially considered to be small scale which employ less than 300 persons in manufacturing industries with an amount of capital falling short of 10 millions yens.

In **West Germany, Australia** and **Norway** in order to avoid difficulty in framing a definition handicrafts and small scale industries for legal purpose are listed in a registered order bearing no scale of operation.

Comparatively speaking, small scale units in other advance countries like USA, Japan, etc. are considered large scale in India and other

undeveloped countries, the small scale units in India are those which apply modern techniques to produce modern product such as engineering, chemical products and metal products such as utensils, bicycle parts, blades, radio sets, spectacle frame and a wide variety of other modern products including furniture's, brushes, soaps candles and brick etc. These firms are generally located in towns rather than in villages and employ mainly hired labour. They use raw materials which often come from long distance, either from few Indian plants or overseas, the sale of products in scattered not merely to nearest town outside the state and even in some cases in export market. Depending upon all these basic facts, the definition modified approved and accepted by all concerned units to industry in Jammu and Kashmir also.

**History**

India has a long history of small scale industries. According to archeologist, the excavation at Harappa and Mohan Jo daro reveal that the 'Charkha' (house hold cotton industry) was a part of the India house hold. Also during the Mauryan period 'khadi' (cotton) was made by rural and cottage industries foreign travelers like 'Marco Polo 1528 and Tarenies 1660 pointed out the details about the significance of Indian rulers small scale industry. The occupational pattern of village in India up to the advent British rule was a vital factor that imported socio-economic freedom and stability to village a balanced agro industrial development and also self-reliance in meeting the basic needs of the people. In the

medieval period particularly in the Mughal period, production of small industries were popular in country as well as foreign countries. By the mid of sixteenth century foreign traders such as British Portuguese,

French came to India for trilateral trade, due to popularity of our hand made goods. After sometimes Indian goods had captures British Maker. Keeping in view of protection of local industries British Parliament passed an Act imposing excessive duty on Indian goods and lower export duties on English goods coming to India. As a result India was floated with cheap and mechanical goods. Due to this unhealthy competition our small industries were affected and soon went under ground.

During the freedom movement priority was given to rural and small industries priority was given to rural and small industries Gandhi ji gave a slogan, 'Be Indian buy Indian' and buycott British goods. He advocated Khadi (small scale products) as the only true 'Swadeshi' and said that it was the soul of 'Swaraj' which was made by millions of Indian hands. The basic theme of swadeshi movement was to provide employment to these persons who were unemployed by British policy. Eminent Economist G.D.H. Cole, Proprietor of Mahatma Gandhi Swadeshi, recognized movement as an effective means to attain universal economic independence and prosperity Gandhi Ji himself said that real planning consisted in the best utilization of the manpower of India and distribution of the raw products of India in his memorious village instead of sending them outside and rupturing finished article at

fabulous price.

Gandhi Ji's emphasis on hand spinning provides the background to the policy relating to small industries in the XXXX session of the India National congress in 1924, Mahatma Gandhi said," I have no better on their message than that of spinning wheel for the nation. I know no other effective method for the attainment of Swarajit is to be by peaceful and legimate means. "The All India spinners Association was established in 1925 in the early 1930's support was successfully extended to hand weaving and to certain other types of small industry, even those employing workers on wage. Mahatma Gandhi's view on small scale industries was as follows.

" If I convert the country to my point of view, the social order of the future will be based predominantly on the charkha and all it implies. It will include everything that promotes the well-being of the village. I do visualize electricity, ship building, iron works, machine making and the like existing side by side with village handicrafts. But the order of dependence will be reserved. Hitherto the industrialization has been so planned as to destroy the village and the village crafts. *

The Jawahar Lal Nehru also said " I am all for tractors and big machinery but I am equally convinced that the most careful planning and adjustment are necessary if we are to keep the full benefits of industrialization and avoid many of its dangers it would fit in well the Indian background give a democratic basis to small industry and develops the

co-operative habit. It could be made to complement the big industries.**

Though the Government started taking active interest in the development of small-scale industries during the Second World War, its importance was not fully recognized before the conference on industrial development held in New Delhi December 1947. The conference stressed the need of organized development in the field of small-scale industries and in pursuance of its recommendation, the cottage Industries Board was set up as advisory body.

After independence, for the first time, India announced a very comprehensive policy with regard to industries. The sector altitude of the government of India towards this was categorically defined in the industrial policy statement of April 16, 1948 as follows "cottage and small-scale industries have a very importance role in the National Economy, offering as they do scope for individual, village or co-operative enterprises and means for the rehabilitation of displaced person. In 1951, the industrial Act was passed with the object of protections, the small scale industries against under competition from large scale industries against under competition from large scale industries and balanced and even development of the various region of the country

Government also gives priority to small-scale industries in three various five years plans. Beginning from the first five year plan the policy of encouraging and developing small scale and cottage industry has been regularly pursued. A number of concessions are being

Charan Singh : Indian economic policy, The Gandhian blue print Vikas Publishing House, New Delhi 1978, Page 53

granted from time to time to develop the small scale industries.*

With the liberalization of the industrial policies the role of the small scale enterprises in the changing profile was studied by various committee, stating from Nayak committee 1997, Abid Hussain committee in 1997, S.L.kapoor committee in 1998 and Gupta study group report in 2000. The thrust of the recommendation of these committee is that time has come to shift from the policy of protection to the promotion. The small scale enterprises should be encouraged to complete on equal terms with other industrial sector. Various measures have therefore been taken in the past 1996 to enable the SSI sector to face the challenges of globalization and to improve the productivity and product quality also.

## Classification of Small Scale Industries

The Small scale sector, which is termed' Village and small Industries" by the planning commission, can further be broadly sub-divided into traditionally industries and non-traditional industries. Traditional industries are mostly carried on in household/cottage using traditional skills (such as, pottery, barbet making, hand spinning and hand-weaving, hand made paper, carpet, toys and dolls, embroidered articles etc.) Industries producing leather and plastic products ready-made garments, chemical and engineering products are example of non-traditional industries. The latter mentioned group also include sophisticated electrical and chemical items, precision components, automobile parts etc.

* Jawahar Lal Nehru : Discovery of India cited by Ram K. Vepa, Small Industries in seventies, Vikas Publishing House, New Delhi, 1971, Page - 15

In view of heterogeneous nature of industries in the sector and variety of the developmental problem, the small sector has been classified as shown in diagram 1.

**1. Traditional / Cottage Industry**

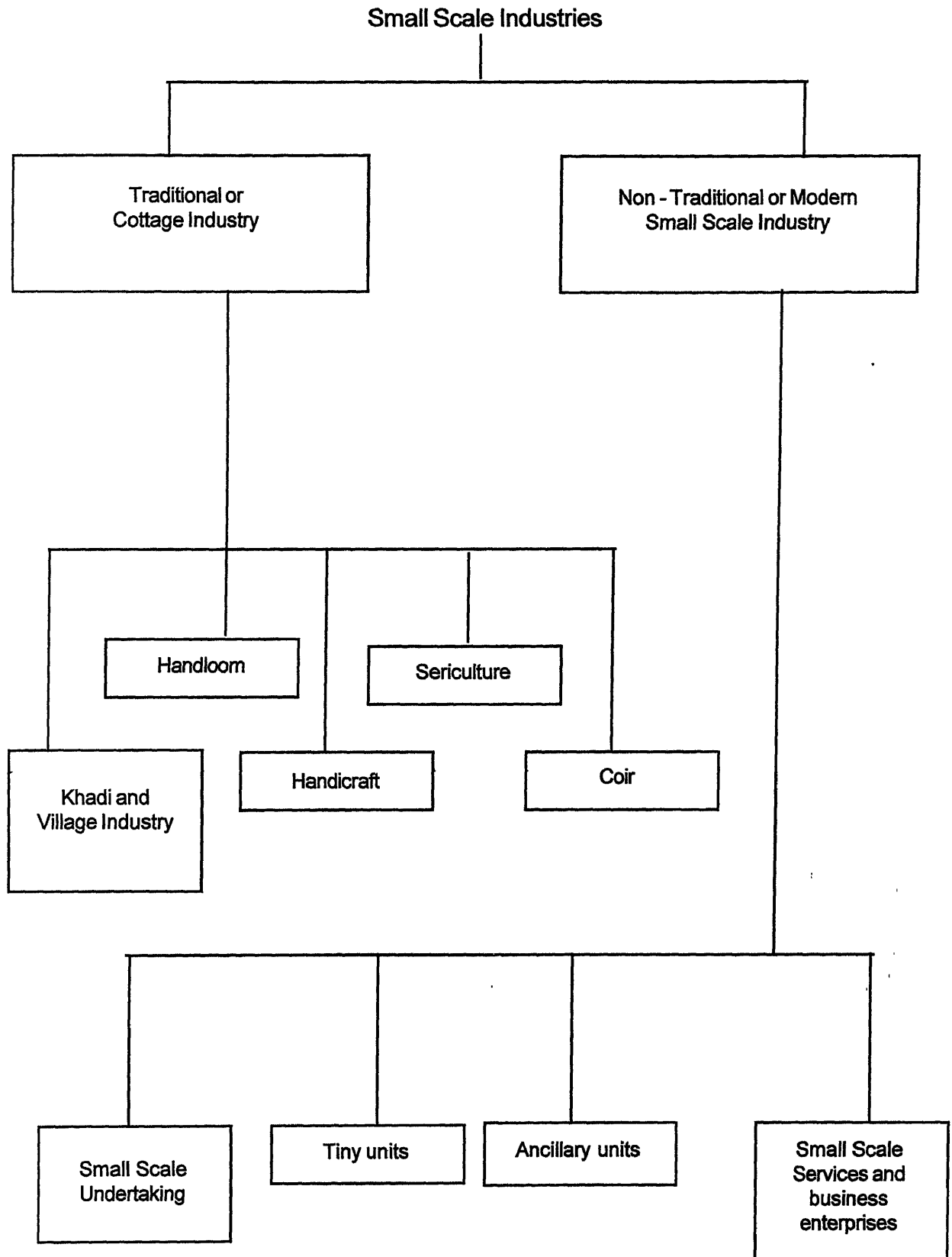
There are the units started mostly as domestic industries which are later developed into small scale units so as to serve as feeder units to other industrial units they are managed mostly by artisan and skilled craftsman and are involved in traditional activities examples are: -

- Khadi and Village
- Handloom
- Handicrafts
- Coir Industries
- Seri culture etc.

**2. Non traditional or modern small scale industries**

There are the units started independently as compared to domestic units of traditional industries and can be further subdivided into -

- Small scale undertaking
- Ancillary industrial undertaking
- Tiny enterprises

# Classification of Small Scale Industries

- Small scale services & business (Industry related) enterprises

The small scale undertaking in which the investment in fixed assets in plant and machinery whether held on owner ship terms on lease or on hire purchase does not exceed Rs. 1 crore

The auxiliary industrial undertaking is engaged or is proposed to be engaged in the manufacturing or production of parts, components, sub-assemblies, tooling or intermediation or the rendering of services and the undertaking supplies or renders or proper to supply or render not less than 50 % of its production or services as the case may be to one or more than industrial undertakings and whose investment in fixed assets and machinery whether held on ownership terms or on lease or on hire purchase, does not exceed Rs. 1 crore.

Tiny enterprises have investment limit in plant and machinery of Rs. 25 lakhs irrespective of location of the unit. There units include all industry related services and business enterprises.

The small scale services and business (Industry related) Enterprises (SSSBEs) are involved in all industry related services and business enterprises, irrespective of location with recognise potential for generating employment. The investment limit is raised to Rs. 1 crore in September 2000 previously it was Rs. 5 lakhs in fixed assets excluding land and building.

The traditionally small industries are highly labours-intensive while the modern small-scale units make use of highly sophisticated machinery and equipment. In 1979-80 traditional small industries accounted for only 13 per cent of the total output but their share in total employment was 56 per cent. Total output of traditional small industries in that year came to be Rs. 4,420 crores and this output was produced with the employment of 133 lakh workers, the average output of labour in traditional small industries was roughly Rs. 3,323.

The share of modern small industries in the total output of this sector was 74 per cent in 1979-80 but their share in employment was only 33 per cent. These industrial units would be having higher labour productivity. In 1979-80 a total output of Rs. 24,885 crores was produced by 78 lakhs workers in modern small-scale industries the average product of labour being Rs. 31,900

Traditional village industries give part time employment to agricultural labours and artisan as results they also do agricultural in their lands, which is their ancestral works. Among traditional village industries handicrafts possess the highest labour productivity, besides it handicrafts make a significant contribution to coming foreign exchange for the country under these circumstances active encouragement should be given to handicrafts and handloom industry. It is also seen that labours workings in traditional industries are living below the poverty line and labour working in modem small scale industry live good life because

ing in modern small scale industry live good life because they provide a good source of livelihood. To remove poverty and for highest employment generation in small scale sector than traditional small scale sector.

# CHAPTER II

## PROCESS OF ESTABLISHING SMALL SCALE UNIT

Idea Generation
Product Selection
Arranging Finance
Unit Development
Registration
Clearance
Quality Certification

## Process Of Establishing A Small Scale Unit

"Setting up a new unit is a big challenge" setting up own's new business is no easy matter. From the start of the entrepreneur to be is pitilessly confronted with the many problems inherent in the initial phase. Many are inadequately prepared and quickly tall by the wayside; indeed enthusiasm alone is no sufficient guarantee of success, as business demands a professional approach and admits of no improvisation at the beginning . There is no doubt that a variety of personal motions and external factors play a part in the decision to let up in the business in practically, all surveys, however the same bey elements return, namely the desire to achieve something the wish to be creative, freedom and independence, while financial earning and profits are usually deemed to be of less importance as initial incentives. Besides this, there are also factors which right from the start, work against any decision to establish a business, for example, the not infrequent negative attitude of family or even of the other enter preneure adverse social status, the lack of security and financial risks.

Owing a small business/enterprise a great dream for those who look curiously at people who have made it your nothing to vast riches. It often remains just a dream for some, but some other can turn the dream into action. Many ventures do not tetch returns more than subsistance wages that too often a lots of hard work and worry. It is often that the person trapped in such a business turn out to be a dreamer than a

pragmatist, when he/she gets into the venture.

A small business venture can be a boon provided on gets into it by the right ways and knows what to expect and what to do, otherwise it can be a dreadful nightmare. Therefore it is essential to first plan your business steps by steps. Following are the steps to start a business it changes according to the need of enterpreneure-

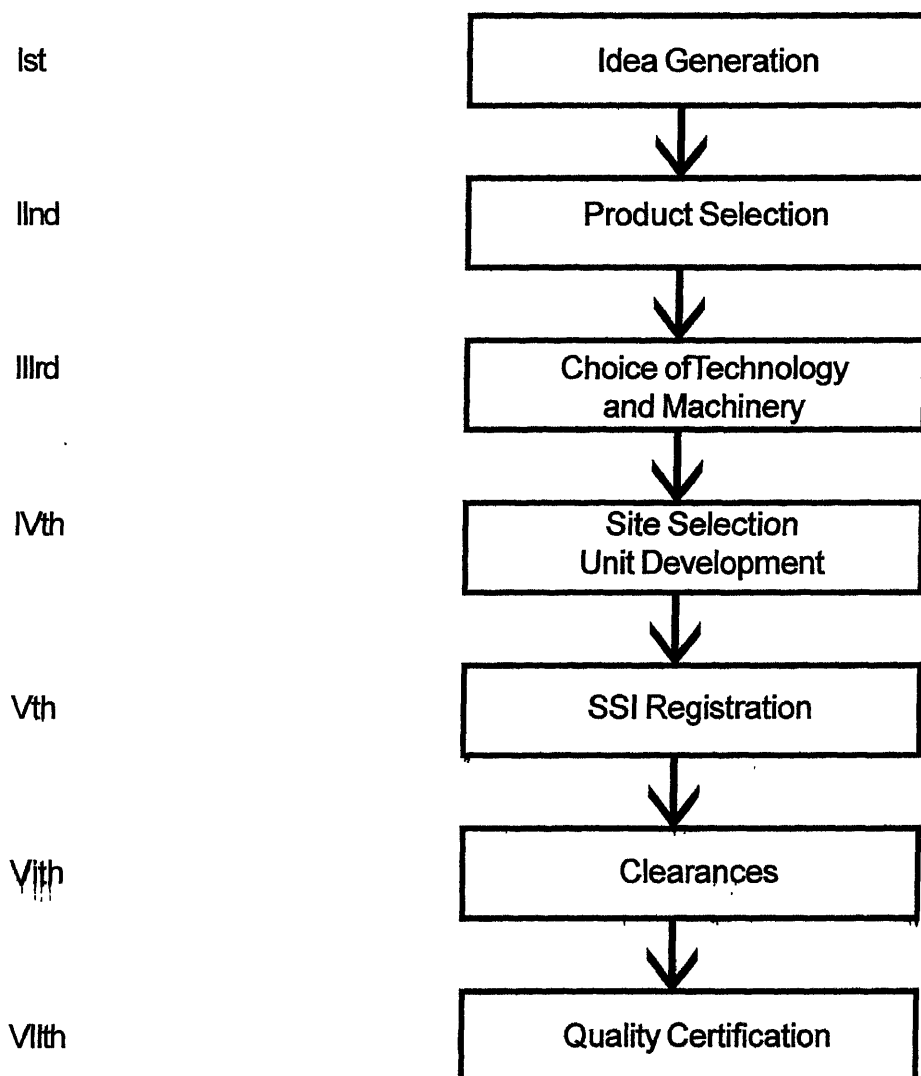
1. Idea Generation
2. Product Selection
3. Technology and Machinery
4. Arranging Finance
5. Unit Development
6. Registration
7. Clearance
8. Quality Certification

"Our best business missions are based on those ideas that often emerge out of our deepest personal motivations and interest- WARREN AVIS

**"TAKE A CHANCE TO BE FIRST"**

## Idea Generation :

Diagram - 2

## Process of Establishing Small Scale Industries

It is not possible of any one to come up first with an idea at the very first instance, convert it into a business opportunity and start a small business on that basis. Person interested in becoming entrepreneur must have the ability to generate a large number of ideas has the potential for a business opportunity and adopt a series of steps to finalise it into a profitable business. The overiding reasons for anyone to think of establishing a SSI unit can be summarised in one word opportunity. An opportunity to provide a product, or service, which can generate sufficient surplus. This is all the more true if one is believe in the maxim "Small is beautiful"

Ideas become opportunites only if they have chance to succeed. The following steps are involved in finding and evaluating business opportunities.

1. Recognise opportunites/ ideas

2. Use method such as Brain storming and all attributes listing for generating ideas.

3. Determine trends and implications

- Demographic
- Economic
- Socio - Demographic

- Socio- Economic
- Socio - Cultural
- Psychological

4. Identify opportunities inferred by these trends
5. Consider ideas to become business opportunities
6. Evaluate business opportunities
7. Correlate opportunities to personal concerns or constraints.
8. Use SWOT analysis techniques for a rigorous evaluation of business opprotunities
9. Create a personal opportunities file
10. Guard your business ideas.

However ideas need to be filtered through a multilayer sieve. This model in shown in the following ways .

1. Does the idea fire up your motivation?
2. Is it a viable business proposition in your area?
3. Does it match the needs of you clientele?
4. Check it out with baric market research

5. Test it out at market place

6. Consult with the experts

7. Look out for competition in the field.

8. Is it a sunrise Industry?

9. Project conceptualisation

10. Your business opportunity

Once of the ideas are screened and viable business opportunity emerges the project has to be conceptualised in all its dimensions. the four P's of project conceptions are show in diagram - 2

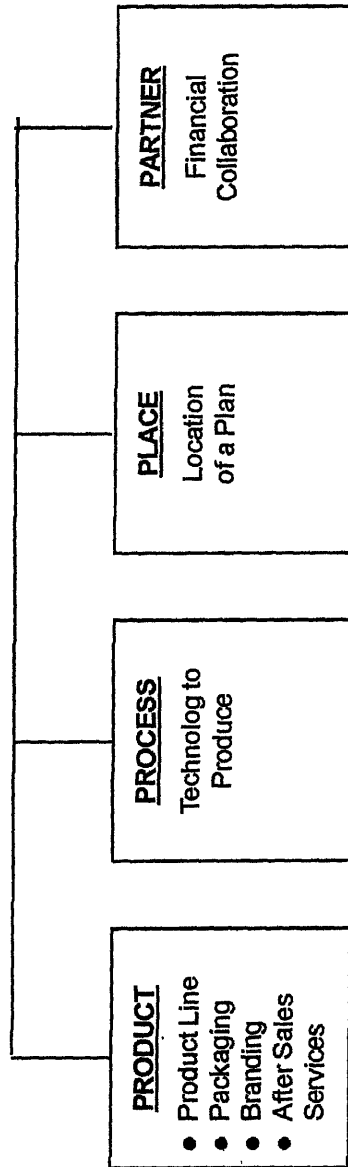
## Product Selection

The product is introduced in the market for the attention , acquisition or consumption. The characteristic of the product often reflect image of the organization, personality and skill of the manufacturer. The product possesses three distinct concepts :

1. The physical object or service offered to the larger market is popularly known formal product.

2. The concept of core product aims to provide utility or benefit to the consumer

3. The augumented product is the totality of benefits that

Diagram - 3
4 P's
Of
Project Conception
PRODUCT
• Product Line
• Packaging
• Branding
• After Sales
Services
PROCESS
Technolog to
Produce
PLACE
Location
of a Plan
PARTNER
Financial
Collaboration

consumer experiences in obtaining the formal product.

In a product conceptualization stage while making a product choice following factors are related to product, need to be considered:

- Product line
- Packaging
- Branding
- Pricing
- Discount offered/Warranties/After sales service

**Product Line**

A product may have different items distinguishable in terms of price, size,appearance, or some other attribute. These may belong to one or more product line. A product line is defined as a group of product items which are related either because they satisfy similar needs of different market segment.

A product mix is a set of all product lines and items that a particular seller offer for sales. The product mix of a firm may be described in terms of having a certain width and depth. The width of the product mix refers to the number of product lines handled by a firm.

The depth of the product mix refers to the number of product lines handled by a firm.The depth of the product mix,on the other hand, indi-

cates the average number of items in each product line. It is possible to obtain the average of the depth of different lines of a firm to use it as a measure of the typical depth of its product mix.The depth of product mix is said to be too short if addition of an item or more is likely to yield profit, contrary to this, the depth of the mix is considered to be too long if dropping of or more items from the line results in increased profits.

The question of optimality of the depth of the product mix, however, depends, to a large extent, on the objectives a firm may try to achieve. While the limitations of data do not permit us to go into the question whether the depth of the product mix is too long or too short, it is possible to bring out the position in respect of the average number of items handled by each firm, the width and depth of the product mix, gross profit in terms of the various size-groups and product-groups. Table 2.1, which gives the position on product mix and gross profit rate according to various size-groups, shows that the average number of items produced per unit is the smallest in the case of unit belongings to the large size-group. It is the double in the small, and even more, in the medium size-group. On an average, the width of the product mix in the large size group is almost half of the width in the other two, small and medium, size-groups. That is in general the units belonging to the medium and large size-groups pursue two product lines as against one in the large size groups.

## Table : 2.1

***Product Mix And Gross Profit Rate According To Various Size Groups***

| Size Groups | Average No. of items Per Unit | Width of product Mix | Depth of product Mix | Average Gross Profit (as % to sales) Rate per unit |
|---|---|---|---|---|
| Small | 4.2 | 2.2 | 1.9 | 16.9 |
| Medium | 4.7 | 2.1 | 2.2 | 14.8 |
| Large | 2.1 | 1.3 | 1.6 | 14.3 |

Source: Marketing practices in small scale industries, R.P.Hooda

The relative position of the three size-groups indicates that as a manufacturing units tends to expand in terms of the size of its assets, it prefers to specialize in the production of a limited number of lines.

The depth of product mix is the lowest 1.6 in the large size-groups and the highest 2.2 in the medium size group. The small size-group is closer to the medium than to the large size-group. In other words, the relativity among the three size groups in respect of the depth of the product mix is almost the same as obtained in the case of average number of items produced per unit.

The relative position of the three size-groups with regard to average gross profit rate is the highest 16.9per cent in the case of small

size-group, 14.8 per cent in the medium size-group, and the lowest 14.3 percent in the large group. Significantly, the gross profit tends to decline with the increase in the asset size.

**Table2.2**

***Product Mix And Gross Profit Rate According To Different Product Groups***

| Product Groups | Average No. of items Per Unit | Width of the product Mix | Depth of the product Mix | Average Gross Profit (% to sales) Rate.per unit |
|---|---|---|---|---|
| Chemicals | 4.3 | 1.9 | 2.3 | 14.1 |
| Textiles | 3.5 | 1.9 | 1.8 | 12.6 |
| Engineering | 4.3 | 2.2 | 1.9 | 15.3 |
| Metals | 5.1 | 2.7 | 1.9 | 13.6 |
| Wood | 2.8 | 1.1 | 2.5 | 16.2 |

Source: Marketing practices in small scale industries, R.P.Hooda

It goes counter to the generally held view that smaller units are less profitable as compared to large units.The position in respect of different product-groups, based on Table 2,2 is as under:

- The average number of items produced per unit is the maximum 5.1 in metals and the lowest 2.8 in wood. It is 3.5 in textiles and 4.3

each in chemicals and textiles and 4.3 each in chemicals and engineering.

- The width of the product mix is again maximum 92.7 in metals and the lowest 1.1 in wood. It is 2.2 in engineering and 1.9 each in chemicals and textiles.

- The picture obtaining in terms of the depth of the product mix is much different as it is the maximum 2.5 in food-wood, followed very closely by chemicals 2.3. Although the depth is lowest 1.8 in textiles, it is not much different from that in engineering and metals 1.9.

- The relative position of the various product-groups in terms of the gross profit rate is closer to that obtained profit rate in respect of the product mix. The gross profit rate is highest 16.2per cent in food-wood and the lowest 12.6per cent in textiles. Engineering and chemical product groups are also placed in a comfortable position with a gross profit rate at 15.3 per cent and 14.1 per cent, respectively. Here positive relationship between the depth of the product mix and gross profit rate is discernible.

**Packaging**

Products must be properly packed before they are sold to ultimate buyers. Packing is a physical activity which adds to convenience in handling the products and prevents leakages, flow outs, or pilferages. The scope of packaging is much wider than that of packing. The former

is regarded as much more important marketing activity because it is used by the producers or a seller as a means explanation, assurance encouragement, confidence all directed to product buyers/customers.

For the customer it is an effective means of recognizing the product and differentiating its characteristic from those of its rival products. It helps establishing customer preferences for the product which ensures repeat purchases.

A package which is attractive in design with good looking wrapper around the container always act as an active medium of advertising a part from giving necessary information to the buyers, it encourages them to do impulsive buying.

Thus, it is primarily due to these and various other useful function that producers and seller spend large sums of money on packaging. It would therefore, revealing to bring out the importance of packaging as a marketing activity .

significant marketing activity. An important relationship which follows from the above is that the use of packaging increases with the increase in the asset size of the firms.

**Objectives of packaging**

The distribution of sample units of various size groups according to different objectives of packaging, as given in Table 2.4, shows that convenience in handling is considered to be the basic packaging objective by the highest proportion of units belonging to all the size groups, followed, in a descending order, by the objectives of product protection, and sales by description. Attracting customers is the least objective of packaging of packaging in all the units irrespective of size. As between the various size-groups, convenience in handling is the most popular consideration in the medium size-group. The objective of protection is the most popular among the units of the small size and the least popular among those of medium size. Sales by description is the most popular objective for units of large size and the least for those of small size .Similar is the position about packaging as a source of attracting customers which tends to become more popular with the increase in asset size of the firms.

Table 2.4

***Distribution of Sample Units of Various Size-groups According to Objectives of Packaging***

| Packaging Objective | Small Size Groups | Medium Size1 Groups | Large Size Groups | Total |
|---|---|---|---|---|
| Convenience in Handling | 40(55.8) | 60(58.8) | 10(31.3) | 110(53.4) |
| Product Protection | 20(27.8) | 22(21.6) | 8(25) | 50(24.3) |
| Sales by Description | 12(16.7) | 14(13.7) | 8(25) | 34(16.5) |
| Attracting Customer | 0(0.0) | 6(5.9) | 6(18.7) | 12(5.8) |
| TOTAL | 72(100) | 102(100) | 32(!00) | 206(100) |

(Figure in Parentheses are Percentages)

**Branding**

Branding is the act of giving a specific name ,term , sign, symbol, design, or a combination of these , to a product by its producer or seller .The basic purpose of branding is to create uniqueness in the product , since it helps to identify the product produced / sold by a pro-

ducer / seller or a group of them, and to differentiate it from those of its rival .When a brand has been granted legal protection in the sense that it cannot be used by any one else, such a brand is called Trade Mark .A registered brand holder undertakes the guarantee to maintain quality standards of the product ,and make it known to customers through advertisement all ,the basic function of branding is to help the customers to identify the product and its producers or sellers and provide them with an opportunity to earn goodwill and repeat patronage.

There are several choices available to producers giving brand name to their products.Under one of these choices manufacturer or seller may sell his product under his own brand name. When one does this, it is called manufacturer's or seller's brand. Alternatively, a producer may allow the middlemen to sell his product under their own brand name. This is known as private brand. Where product lacks common attribute, each of them can be given independent brand name and sold as such. This is known as individual brand. Individual branding is a term, generally used when product items are not similar in quality, product line is not compatible, and the products are not sold in the market. On the other hand, a producer may go in family branding where a single brand name is used for all the products marketed by the same producer or seller.

## Table 2.5

***Distribution of sample units of various size-groups according to brand use characteristics.***

| Size Groups | Sample Units | Brand Name User | Brand Name Non-User | Type of brand Individual Brand User | Type of brand Family Brand User | Whether Registered | Unregistered |
|---|---|---|---|---|---|---|---|
| Chemical | 70 | 58(82.9) | 12(7.1) | 10(17.2) | 48(82.8) | 40(69.0) | 18(31.0) |
| Textiles | 54 | 20(37.0) | 34(63.0) | 2(10.0) | 18(90.0) | 4(20.0) | 16(80.0) |
| Engineering | 108 | 58(53.7) | 30(46.3) | 4(6.9) | 54(93.1) | 32(55.2) | 26(44.3) |
| Metals | 90 | 26(28.9) | 62(71.1) | 0(0.0) | 26(100.0) | 18(69.2) | 8(30.8) |
| Food-Wood | 58 | 30(51.7) | 28(48.3) | 0(0.0) | 30(100.0) | 20(66.7) | 10(33.3) |
| Total | 380 | 192(50.5) | 188(49.5) | 16(8.3) | 176(91.7) | 114(59.4) | 78(40.6) |

(Figures in parenthesis are percentages)

Table 2.5 gives the positions in respect of different product groups, Shows that the proportion of brand users is highest in chemicals followed by with a wide margin by engineering, wood, textiles and metals. The proportion of brand users is much higher than that of non users in the case of chemicals, and with a much less difference engineering and Wood. It is reverse that obtain in the case of textiles and metal.

It is also found that family branding is more popular then indi-

vidual branding, on the whole it may be observed that the use of branding is more popular than medium and large size groups.

Some other factors that one should considered while finalizing the product choice are:

- Ease of availability of raw –material
- Process Technology
- Accessibility to the market
- Incentive and support from Government

Market information is also important for product selection. Product, which are likely to have number of players in the market, are best avoided. Some such products in the recent past have been plastic footwear, audio cassettes, disposable gloves and bulk drugs.

In case the entrepreneur is looking for a product, which has export potential the following additional question need to be asked:

- What should be the contents of export-product portfolio?
- What are the special requirements for packaging if one has to export the products ?
- What product adaptations are needed to be made for exporting a product to a specific country ?

- Are any WTO conditionalities involved e.g. "child labour free", ISO 9000 certified, GMP followed etc.

The development of export-product portfolio can be done by considering 4 parameters viz.

- External demand conditions
- Internal supply capability
- Complexity of marketing tasks
- Amount of investment required to penetrate the market

Analysis can be conducted using this four dimensional model. The obvious choice is a product which scores a high rating on first two parameters and low rating on last two parameters.

EXIM (Export Import Bank of India ) Bank has also developed an excellent model to conduct the export-product portfolio analysis based on three parameters viz.

- Supply Capability in Product Group
- Domestic Environment
- Export Market Attractiveness

This analysis gives rise to product groups with high potential or low potential with regard to special packaging requirements one has to

be careful about laws of the country. For instance, while exporting to Australia, wooden- packaging cannot be done. product adaptions for country' specific needs look into things like whether voltage supply is 220V-110V For electric appliances and for automobiles whether left-hand drive is appropriate. it has now become important to understand the implications of the various agreements which form part of WTO once the product is finalized, choices of process technology emerge.

**Technology And Machinery**

If the flow of adequate credit is an obvious problems for the small and decentralised sector, the availability of the right type of technology is no less. The emphasis is on the word right, since some type of technology is available while not every kind is suitable for the sector. Most technology development has takes place in the developed countries; UN report has estimated that more than 90 percent of the technical innovations that occur so in western countries and Japan. The nature of such innovation is, therefore, naturally geared to the specific requirements of these countries. Most of these innovation and devices are highly labour saving, since one of the recurring problems in these countries is to find the people to do the jobs. A second common feature of most innovations is that they are geared to the mass markets. Capital investment being high and operating cost being on increase, the break -even point is progressively being pushed upwards. Thus mechanisation and mass production becomes inevitable if industrial operations are to yield

a profit. The emphasis is not on individual skills in which the human being is the central figure but the machine, which can perform thousands of operations every day.

It is this development which Gandhiji's foresaw and warned his countrymen about the evils of excessive mechanisation. He says. "As a moderately intelligent man, I know that man cannot live without industry. But I have a great concern about machine-industry. The machine producers much too fast and brings with it a sort of economic system which I cannot grasp".

There is need therefore for a technology that provides just the right quantity of stimulus to progressively upgrade the technology in the traditional sector. The small entrepreneur needs the right type of machines for production. While choosing the appropriate technology one should plan.

- What type of machinery new/old/indigenous/imported whether to purchase or lease.

- Whether to manufature whole product or subcontract the whole or part to another.

- Whether to consider production methods build a prototype, test and develop prototype, full scale production and quality control.

Choices of process technology emerge once the product is finalised. For some complex product process know how has to be imported. Insuch cases agreements for technology transfer should made with the due care to safe guard interest. A lot of appropriate technology is being developed in Defence Research Labs and some of these technology process can now be bought indigenously developed process know-how has interistic benefits such as appropriateness and relative in expensiveness.

While checking out on a process technology. The following things need to be considered with utmost care :

- Whether process requires very high level of skilled workers or complex machines.

- Whether process requires large quantities of water and / or power.

- Whether dry process or product patent needs to be honoured while utilising the selected product technology.

- Any special pollution or environmental regulations.

- Finally the appropriateness to the Indian Environment and Conditions.

One of the major deficiencies in the small industry scenario is the prevalence of outdated production and management methods hin-

dering the efficient operations of small scale units. It was also found that the most important reason for the reluctance of the small industrialists to install modern machinery and equipment was the lack of investible fund. The main objective of National Small Industries Corporation (NSIC) is to provide machinery and equipment to small industrial units of them long repayment period with moderate rate of interest. State Small Industries Corporation (SSIC) provide indigenous machinery on deferred credit bases to give support to small scale industries. for the issue of import licences for machinery of foreign origin on the recommendation of the Directors of Industries should approach Chief Controller of Imports and Exports New Delhi.

After this, agreements for technology transfer should made with due care to safe guard interest. He can get the necessary machinery from the National Small Industries Corporation under a Hire purchase scheme. The scheme for the Supply of indigenous and imported machines on hire purchase basis was launched in March 1956 to enable small entrepreneurs without substantial means to avail themselves of assistance. NSIC procedures for hire purchase of Machinery :

- The hire purchase application is to be made on the prescribed form.

- The Director of Industries of the state under whose jurisdiction the applicant falls, forwards the application to the head office of the NSIC at Delhi with his recommendation and comments.

- All applications for indigenous or imported machines are considered by acceptance committees comprising of the representatives of the Chief Controller of Imports, Development Commissioners Small Scale Industries and other concerned departments.

Value Of Machines That Can Be Supplied, Rs. 7.5 lacs, landed cost as the case may be.

**Earnest Money :**

5 per cent or 10 per cent of the value of machinery depending on whether the equipment is imported to indigenous. In the case of furnances and a few other items of equipment, the rate of earned money is different interest 9 percent per annum with a rebate of 2 per cent on prompt payment. This interest is calculated on the value of machines outstanding after deducting payment of earnest money.

**Administrative Charge :**

2 percent on the sales value of machines and its recovery by the NSIC is spread over the total installment period.

**Period Of Repayment :**

The value of the machines, after deducting the earnest money received, called the Balanced Value, is payable alongwith interest and administrative charge in 7 years. the first installment is payable after one year and six month from the delivery of machines. the second and

subsequent installment are payable half-yearly thereafter.

**Gestation Period :**

In case of certain type of machines which become operative immediately on installation in service sector industries and job order establishments, a gestation period of 6 months be allowed both to the new and existing units a rebate of 2 per cent per annum is allowed on the interest rates in case an installment is paid on the due date in case the payment of installment is not made within one month the specified due date, interest @2per cent per annum over and above the normal rate is charged on the defaulted amount from there of default to the date of actual payment Remission in interests in allowed in case one or more this one installment is paid in advance of the due date.

**Investment Units For Fixed Assets And Machinery :**

In the case of small Scale industrial undertaking the investment in fixed assets in plant and machinery, whether held on ownership terms or on lease or by hire-purchase does not exceed Rs. 1 Crore. Export oriented small scale unit to export atleast 30 percent of the annual production by the end of the third years from the date of its commencing production. In respect of medium and large units which wish to produce any reserved item for the small scales sector the export obligation is placed at 50 per cent.

In the case of ancillary undertakings, the investment in plant and

machinery, whether held on ownership terms or on lease or by hire purchase shall not exceed Rs. 1 crore.

**Arranging Finance :**

Finance represents one of the vital elements in the success of any small industries development programme The availability of finance on easy and liberal terms in essential if the small scale is to function effectively. One of the basic problems in most developing countries is to set up an institutional frame work that enables a deserving small entrepreneur to obtain the credit (both short and medium-terms) he needs without, at the same time, wasting it on schemes which are unproductive and on persons who are incapable. For credit a entrepreneur should fill a form Annexure 1, for credit facility from bank No SSI unit can take off without monetary support. This need for finance can be classified into following types.

- Long and Medium term loans.
- Short term or working capital requirements
- Risk Capital
- Seed Capital
- Bridge Loans

**Long Terms Loans**

Periods exceeding 3 years are usually regarded as long term finance is required

- Procurement of fixed Asset
- Off balance sheet finance (lease/Hire purchase)
- Intercorporate borrowings

**Short Term Loans :**

Short term loan usually refers to the funds required for a period of less then one year. Short term finance is usually needed for Current requirements :-

- Variable
- Seasonal

Dependent on volume of production and turnover temporary working capital. Important Sources of short term finance are Owner's own fund, Bank credit, Trade credit, Instalment credit, Customer advances.

**Risk Capital :**

To support entrepreneurs of SSI and medium-scale Industries by way of loan finance on short term, the risk capital and technology finance corporation provides his capital to First Generation Entrepreneurs. It enables the SSI entrepreneur to rose a portion of equity which is treated

as promoters contribution personal loans to promoters may be from 15 lacs to 40 lacs depending upon number of promoters.

**Bridge Loans :**

Bridge loan is out of term loan sanctioned by financial institution and bank. Purpose of utilization of the facility of the bridge loan is An interim loan, to be use for the purpose of acquiring block assets, land, building plant and machinery and other equipments for setting up on expending a project. conditions for bridge loans are :-

- It is for a period of 3-7 yrs.
- Insurance of the mort-gaze assets.
- Granted in anticipation of release of sanctioned loan.
- To avoid delay in implementation of protect.
- Lender Institution give under taking to bank that disbursement of the loan only through bank and not directly to borrower.
- No objection certificate from lender institution for bank's charge on assets.
- Establishing new business
- Substantial expansion
- Modernization

- Merger/acquisition

The important sources of longterm funding are, Equity expansion rights general public issues, Debenture loan, Term Loan from Banks, Capitalization of resources, Plough back of profits, External borrowing.

**Medium Term Loans :**

The period of one years to 5 years may be regarded as medium-term Medium term loan is generally required for, Non-current or fixed requirement for, Small expansion, Modification/replacement, Long term Working Capital.

The important sources of medium-term loans are, Ploughback profits, Public deposits, Bank Finance, Financial institutional loan, Debenture issue.

**Working Capital Loans :**

Different types of Working Capital Loans from banks available depending on conditions which are explain below:-

For cash credit limit granted by the bank to the SSI latter is expected to observe the following formalities required by the bank :-

1. SSI to cooperate with bank which requires valuation of the pledged or hypothecated goods carried out from time to time as under:-

- Raw materials are valued on the basis of the cost price,

market price or the controlled price, if any whichever is the lowest.

- Stock-in-process is valued as above.

- Semi finished goods are valued at the cost of the product. Finished goods are valued either at cost or as per the list price (less trade discount and proft margin) or the market price, whichever is the lowest.

2. The SSI should take proper care in storing the good charged to the bank to avoid their detoriation.

3. The SSI should have the charged goods insured against possible risks like fire, theft, riot, burglary, flood and earth quakes.

4. The SSI should allow the bank to suspect the charged goods and physically verify the quality or quantity from the registers maintained by it for secured goods. This will enable the bank to calculate and tax the drawing powers of the SSI borrowers . The drawing power is calculated by reducing the margin or the values of the security, as margin rate differs from asset to asset depending upon the volatility in market price of such assets and the presumed loss in the quantity of the asset devicing storage.

5. Book debts that have arisen from genuine trade transactions are also taken into account for calculating the drawing powers, provided that such book debts are not older than the stipulated periods./ Financial

assistance in India for SSI units is available from variety of institutions. The important ones are :

- Small Industries Development Bank of India (refinance and direct lending)

- State level financial corporation eg. Delhi Financial Corporation.

- National Small Industry Corporation. Small Industry Development Corporation of various states. commercial/co-operative Banks.

Long and medium term loans are provided by state Financial corporations, SIDBI and State Industrial Development corporations. Banks also finance term loans. This type of financing is not to fund purchase of land, construction of factory building/ shed and for the purchase of machinery and equipment. Term loans are secured against mortgaze of assets such as land, building, machine equipments and other stocks. The short terms loans are required from working capitals requirement which fund the purchase of raw material and consumable, payment of wages and other immediate manufacturing and administrative expenses such loans are generally available from commercial banks, there is, however, a single window scheme, for SSI units. Under the scheme, one agency either the bank or the financial institution, funds both the term loan and working capital recquirement. This scheme applies to all

SSI project with project out upto Rs. 50 lacs. The working capital is generally secured against.

- Pledging of stocks, raw materials and finished goods.
- Advances against work - in- progress (WIP),
- Advance against bill.

For loans from financial institution and commercial banks a formal application needs to be made. The details of documentation that need to be provided with the loan application are shown here-

- Documentation for loan application
- Balance sheet and profit, loss statement for last 3 consecutive years of terms owned by promoters
- Income tax assesment certificates of partners/directors
- Proof of possession of land/building
- Architects estimate for construction cost
- Partnership deed/ memorandum and articles of associations of company.
- Project report
- Budgetary quotation of plant and machinery

A sanction or rejection letter are issued by bank after its assesment of application. After received a sanction letter applicant needs to indicate in writing their acceptance of terms and conditions noted down by financial institutions/ bank subsequent loan is Disbursed according to the faced implementation of the project. In today's environment there are other choices apart from commercial bank's and government owned financial institution. There options include venture capital fund and non-government finance companies.

**Unit Development**

After deciding the issues of product and process, the next important question is where to set up ? An ideal location is a boon to a manufacturing to grow diversify and prosper as well as provide quality products on a ongoing basis. Location is also an important-factor determining in the ultimate success or failure of a small scale unit.

The location for the purposed business/enterprise should be selected as per its requirements and ideal location is one where the cost of the product is kept to the minimum, with a large market share. The important considerations for selecting a suitable location are given below.

**Natural and climatic considerations :**

Level of ground, topography of the region, drainage facilities, etc; climatic conditions can be maintained artificially.

**Availability and Nearness :**

The region in which the manufacturing industrial unit is proposed to be set up should provide atleast a greater part of the raw material required, thus ensuring a continuity of supply at reasonable price. The source of raw material should be at the least distance from the industry set to be, to cut down the transportation charges.

**Access to Market :**

Small businesses in retail / wholesale or services should be located within the vicinity of densely populated areas.

**Energy and Power Resources :** Locations with steady supply of electricity/ industrial fuel or gases should be given preference.

**Infrastructural Facilities :** Availability of develop industrial sheds/sites, link roads, nearness to railway stations, airports, or sea-ports, availability of electricity, water, public utilities, civic amenities and means of communication are important, specially for SSI's.

**Human Resource :** It has to be seen whether proper labour required is available in the area. If labour is brought from the other areas, the cost would go up.

**Banking and Financial Institutions :** Should be located near by to operate smoothly.

**Locations and Links :** To develop industrial areas or business centre

result in savings and cost reduction in transport overheads, miscellaneous expenses, etc.

**Government influence :** Both positive and negative incentives to motivate an entrepreneur to choose a particular location are made available. Positive incentive include cheap overhead facilities like electricity, banking, transport, tax relief, subsidies and liberalisation. Negative incentives are prohibition for setting up industries in urban areas for reasons of pollution control and decentralisation of industries.

**Transportation cost :** In obtaining supplies raw material and distributing/ marketing the finished product to the ultimates user. For a choice of suitable location webes give a theory of Industrial location" It is based on the following assumptions, the material used by an industry can be classified into ubiquitious and localised materials. the ubiquitious are those raw-materials which are available every where, like bricks, clay and water. The localised materials are those which are available in certain localities only like mineral, fuel etc. The localised materials are further divided into weight loosing or gross materials and pure materials. The weight losing materials are those which-considerably loose weight during the manufacturing process [example, coal and other materials] As opposed to pure material like cotton or wool. the situation and the size of places of consumption are given, with the market comprising a number of seperate point. there are certain fixed labour locations and labour is immobile. Wage rates may vary from location to location but in

each location supply of labour is unlimited at the given wage rate. Weber's theory divides the factors in fluencing industrial location into the following too :

(i) The general regional factors of transport and labour costs. These general regional factors are regarded as the primary causes affecting industrial location.

(ii) The local factor of 'agglomerative' or 'deagglomerative' forces regarded as secondary responsible for redistribution of industries.

The limitation's of weber's theory of Industrial location are :-

- The theory in based on three wrong assumption on labour supply:
- Transport cost depend on the mode of transport, nature of goods etc:
- Location and size of market may vary with changes in economy:
- Non-economic factors also exert important influence on industrial locations.
- The theory ignores role of capital and entrepreneurship in the industralisation and; classifications of materials is not proper.
- Classification of material is not proposed.

**Construction Of Building :**

It is very important to ascertain the general development surrounding the site. Whenever a construction activity is launched, it is useful to have a ancilliary support available in the area. availability of construction facilities like rental cranes, earth moving equipment, welding sets etc, in the vicinity reduces the cost of construction as well as the time period of project implementation. once the Industrial plot for the unit is secured, then the next job in that of finding a suitable architect. Design of factory building has to be in\consonance with the type of industry and have an appropriate plant layout.

An architect's estimate of building construction is essential for loan application. Further, Architect certificate for money spent on building is needed for disbursement of loan.

**Getting the Utility connections :**

Among the utilities of prime importance are power and water. In many cases getting power connection causes delay in setting up of plant. Therefore it is imperative to commence work in aspects with diligent follow up. Power connections are generally of either Low tension or High tension type. If connected load is upto 75 HP, LT connection in provided. For connected 130HP or higher only HT connection is provided.

A formal application needs to be made in a specified form to the state electricity board. A electricity inspector is deputed for evaluation

of application to factory site, after which the load in sanctioned for areas of powers shortage it is advisable to augment the power supply with captive generating site. Water connection is also obtained like wise by applying in advance in formal forms. The water supply can be augmented by installation of tubewell.

Getting 3 M's Right.

**Men**

Projection for manpower and staffing are made in the project report. However it is necessary to the induction of manpower in a planned manner. The engineers and operatives must be available before the installation of the machinery.

**Machinery**

Choosing and ordering of right machinery is also of paramount importance. In many cases technology or process provide specification which is not provided, than an extensive techno-economic survey of machinery and equipment available must be carried out. International trade fairs and engineering fairs are good places to look at available options. The entrepreneur is also consultant experts dealer/supplier as well as users, prior to making a selection of equipment and machinery. The advice of DIC, SISI and NSIC can also be sought

**Material**

Material procurement and planning are critical to success, of a start-up with a SSI unit, inventory management can lead to manageable cash flow situation, otherwise if too much is ordered too considerable amount of working capital gets locked up-on the other hand, non-availability in production hold-ups/an idle machine and manpower. For essential imported raw material whose lead time is large, proper planning in all the more essential.

In location other than cities of more than one million population, there is no requirement of obtaining industrial approvals from the central Government except for the industries under compulsory licensing. In respect of cities with population greater than one million, Industries of their than those of a non-polluting nature such as electronics, computer software and printing, may be located outside 25kms of periphery of urban areas, except if they are located in designated industrial area, prior to 25.7 in 1991. Zonal and land Use regulations and Environmental Legislation continue to regulates industrial location, now industrial location guided by commercial factors and sustainability, it does not now affected by social demands alone.

**Registration**

All existing small scale units or intending entrepreneur employing more than ten worker would get themselves registered with the DIC in their states. The main purpose of registration is to maintain statistics

and maintain a role of such unit for the purposes of provision and support services. A copy of this application for registration should be sent to the Director of Small Industries Service Institute in the concerned state. Such registration with the direction of industries and the small industry services will be of considerable help to small scale units in obtaining machinery on hire purchase basis.

Such registered firms are eligible for availing the incentives and subsidies, rebates and concession, from the state government. For business firms, registration of the establishment under the State, Shops and Establishment Act. is required in the prescribed format to be submitted to the Inspector, shops and establishment. States have generally adopted the uniform registration procedure as per the guideline. However, there may be modification done by states. It must be noted that small industries is basically a state subject. States use the same scheme for implementing their own policies. It is possible that some states may have a 'SIDO registration scheme'. Application form is submitted for COB Licence (Annexure-2)

**Benefits Of Registering :**

The registration scheme has no statutory basis. Unit would normally get registered to avail some benefits, incentives given either by the Central or State government. The regime of incentives offered by the centre generally contains the following:

- Credit prescription, differential rate of interest (Priority sector lending)

- Excise exemption scheme.

- Exemption under direct tax laws.

- Statutory support such as reservation and the interest on delayed payments act.

It is to be noted that banking loans, excise low and Direct taxes law have incorporated the word SSI in notifications. Though in many cases they may define it differently. However, generally the registration certificate is send to registering authority has a proof of being SSI.

States have their own package of facilities and incentives for small scales. They relate to development of Industry, Tax subsidies, power tariff subsidies, capital investment subsidies and other support. Both the centre and the state under law or otherwise, target their incentives and support packages generally to units registered with them.

**Objectives**

Following are the objectives of Registration:-

- To enumerate and maintain a role of small industries to which the package of incentives and support one targeted.

- To provide a certificate enabling the unit to avail statutory

benefit mainly in terms of protection.

- To serve the purpose of collection of statistics

- To create modal centres at the centre, state and district level to promote SSI.

Feature of the scheme are as follows :

- DIC is the primary registering centre

- Registration is voluntary not compulsory

- Two type of registration is done in all states. First a provisional registration certificate is given. And after certificate of production, a permanent registration certificate is given.

- PRC is normally valid for 5 yrs. and permanent registration is given in perpetuity.

**Registration Certificate :**

The registration of the SSI with the state, Directorate of industries is voluntary but it is desirable for industrial unit in order to derive benefit from the different schemes of the Government. Registration is done in two stages.In first stage provisional registration certificate is given. In second stage when unit has taken all steps of commencing production, it can apply for permanent registration.

**Provisional Registration Certificate (PRC)**

It is given for the preoperative period and enables the unit to obtain the term loan and marking capital from institutions/banks under priority sector lending, obtain facilities for accomodation, land, other approvals etc, obtain various neccessary non-objection certificates and clearances from regulatory bodies such as pollution control Board, Laws and Regulations etc.

**Permanent Registration Certificate :**

Enables the unit to get the, Income-Tax exemption and sales-tax exemption as per state government. Policy, Incentives and concessions in power tariff etc, price and purchase preference for goods produced, Availability of raw material depending upon existing policy., permanent registration of tiny units should be renewed after 5 years, Once the unit commences the production, it has to apply for the permanent registration on the prescribed form.

The unit has obtained all necessary clearances whether statutory or administrative e.g. drug licence under order, Non Objection Certificate (NOC) from pollution control board, if required etc, Unit does not violate any locational restriction, enforce, at the time of evaluation, Value of plant and machinery is within prescribed limit, Unit is not owned controlled or subsidiary of any other industrial undertaking as per notification.

**De- Registration :**

A small scale unit can violate the regulations in the following ways which will make liable for the registration :

- It crosses the investment limits.
- It starts manufacturing any new items/items that require on industrial licence or other kind of Statutory licence
- It does not satisfy the condition of being owned, controlled or being a subsidiary of any other industrial undertaking.

**Clearances**

An entrepreneurs has to obtain several clearances or permissions depending upon the nature of his unit and product manufactured for setting up a small scale unit-following clearances are neccessary :-

1. Environment & Pollution Related Clearances
2. Product Specific clearances
3. Regulatory or Taxation clearances

**Environment & Pollution Related Clearances**

The enviornmental policy of the Government, therefore, aims at integrating environmental and economic aspects in de-

velopment planning, preventive aspects in pollution control promotion of technological inputs for reducing industrial pollutants the policy distinguishes between preventive and curative sides of the problem by minimising pollution as well as achieving a reasonable level of pollution by control measures.

Any item reserved for the small scale sector worth investment of less than Rs. 10 million is also exempt from obtaining environmental clearances from the central government the Notification SO60(E) dated,27-1-1994.It is possible that a chemical or a by-product recoverable through pollution control measure is reserved for the small scale sector with a view to adopting pollution control measures. Government has decided that an application needs to be made for grant of an industrial licence for a such reserved items which would be considered for approvals without necessarily imposing the mandatory export obligations.Entrepreneurs are required to obtained necessary clearances from the environment angle before setting up an industrial project. Small scale industries/units except for 17 heavily polluted categories, are exempted from taking the prior approval of the pollution control board before starting operation for then acknowledgement of the application from by the central pollution board would serve the purpose the heavily polluted categories of Industries are :-

1. Fertilizers (Nitrogenous/Phosphate)

2. Sugar

3. Cement

4. Fermentation and distellary

5. Aluminium

6. Petrochemical

7. Thermal Power

8. Caustic Soda

9. Oil-Refinery

10. Tanneries

11. Copper Smelter

12. Zinc Smelter

13. Iron-Steel

14. Pulp & Papers

15. Dye & Dye intermediaries

16. Pesticide Manufacturing and Formulation

17. Basic drugs and Pharmaceuticals

Filing of an application by the small scale units would be sufficient for items with allow pollution load environment clearing (Annexure) and there would also be no need of industry to obtain periodic renewal consent till such time that are unit changes its process. The small scale units in 17 identified critically polluting sectors will continue to have their data scrutinised before the consent to operate is given.

The small scale units are called upon to adopt loan technologies and implementation of pollution control measures to achieve the good of promoting sustainable development. The Government has subsidies schemes to provide financial assistance to small scale units to aid implementation at pollution standards by setting a common efficient treatment plants.

**Regulatory Or Taxation Clearances**

Small scale units are required to apply to the concerned authority of approval/permission under the following enactment where applicable -

1. Registration under sales tax Act - Commercial Tax officers of area concerned .

2. Registration under Central Excise Act - Collector of Central Excise or their nominees for areas.

3. Payment of Income Tax - ITO of the area concerned

4. Registration of Partnership Deed - Inspector General of area concerned.

5. Calibration of weight and measures - Weight and Measures Inspector of State.

6. Power connection - Designated officers of state electricity board

7. Employees strength exceeding 10 with power connection or 20 without power - Chief Inspector of Factories.

**Product Specific Clearances**

Before establishment a small scale unit it is essential to choice a product which have not much limitation because getting a product specific clearance is necessary for getting registration certificate following are the product which needs clearances :

1. Establishing a Printing Press - District Magistrate.

2. Licence of Cold Storage Construction - Designated Official in State.

3. Pesticide - Central/State Agricultural Department Industry of Agriculture.

4. Drugs and Pharmaceutical - Drugs licence from State Drugs Controller.

5. Safety matches/fire works - Licence under explosive Act from Directorate of explosives, Nagpur.

6. Household electrical appliances - Licence from bureau of India Standards.

7. Wood working Industries within 8km from forest - District Forest Officers.

8. Milk Processing and Milk Products Manufacturing Unit - Approval under milk and milk products order from State Food Processing Industries Department.

## Quality Certification

Quality performance is an important tool for Indian Industry now a days. No industry can survive for long time until he has quality certification. It is not only important for Indian Industry to aware of the need to ensure quality but to get ISO-9000, ISO-9000 is the International standards for quality systems. It is a set of requirements specified by the international organisation for standardization. It is an important tool for cost effective production, setting quality standards, therefore equip small scale enterprises.

Quality as ISO-9000 defines it as totality of characteristics and

features of product, services, systems or part that bears upon its ability to satisfy stated or implied needs of a customer therefore, we can say quality lies in the views and eyes of customer. The corresponding standards known in same countries are as under.

- IS- 14000 (Indian Standard)
- EN- 29000 (European Community Standard)
- BS-S750 (The United kingdom standard)

ISO consists of representatives from 90 countries, each country is represented by its one national standards body. Bureau of Indian standards is Indian representative to ISO.

**Procedure For Getting Certificate For SSI :**

To avail the certification of ISO-9000, a unit has to undertake significant cost, the small scale Industries has been wanting mainly on account of resource crunch to implement quality system to obtain this certification. However, Paradigm shift, SSI must make quality a way of life.

It has been decided to push the quality upgradation programme in the SSI Sector in a big way. A scheme has been launched to give financial incentive to those SSI units who acquires ISO-9000 certification reimbursing 75per cent of their cost of obtaining certification, subject to maximum of rupees 0.75 lac per unit. In order to promote modernization and technology upgradation in SSI the units are assisted in

improving to their products. A new scheme has been launched to assist SSI units in obtaining ISO-9000 or an equivalent International standards subject to on upper ceiling of Rs. 0.75 lac. Each unit is given financial assistance equal to 95per cent of cost acquiring the quality standards. The SSI units are also encouraged to participate in quality awareness and learning programmes.

# CHAPTER III

## ROLE IN ECONOMIC DEVELOPMENT

Share in Indian Economy
Employment Promotion
Income Generation
Production
Exports

# Role In Economic Development

It has been widely believed, over a long period of time, that small scale industry, in its wide sense (including rural industry) has a special place in the Indian economy and its development. The role perceived for small scale industries and the nature of industries it refers to has been changing over time, but the importance attached to it in the development process remains. The revival of interest in small scale industry in recent year is largely a result of the recent concern for the problems of unemployment and poverty and realisation that, in the course of industrial development, the growth in industrial development the growth of emloyment has lagged far behind the growth in industrial output. It has been claimed that industrial development based on small scale industry is capable of countering simultaneously three important evils of the present industrial strategy (based on heavy industry and big production unit) namely growing unemployment, persisting in equalities and mass migration to cities. A part from these there is also the claim that small scale industry has a potential for tapping. Substantial new sources of saving and entrepreneurship. Due to the above potential the small scale industrial sector plays a pivotal role in the Indian economy. Since independence in spite of stiff competition from the large sector and not so encouraging support from the Government it has recorded from the Table

Small Scale industries in India : Policies, Programme and Institutional support, Govt. of India New Delhi, March 1982 Page 6-7

3.1 Number of registered units which went up from 16,000 in 1950 to 36,000 units in 1961 and 32.3 lakhs units in 1999-2000. During the last decade the SSI alone has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control system,micro wave component, electro-medical equipment T.V. sets etc. Following are the area in which small scale industry plays a important part :

- Share of small scale industry in India economy.
- Employment promotion
- Income generation
- Production
- Exports

## Share Of Small Scale Industry In Indian Economy

The closures and mortality are a normal phenomenon in industry and business and this aspect needs to be taken into account while estimating the share of SSI in national income, manufacturing sector, employment and production. On the basis of second census 1987-88, the share of SSI in the manufacturing sector in terms of net value added comes to about 34.80 per cent in case all the units as per estimates of the SIDO (i.e. without taking into account the closures and mortality) are taken into account the share of SSI in net

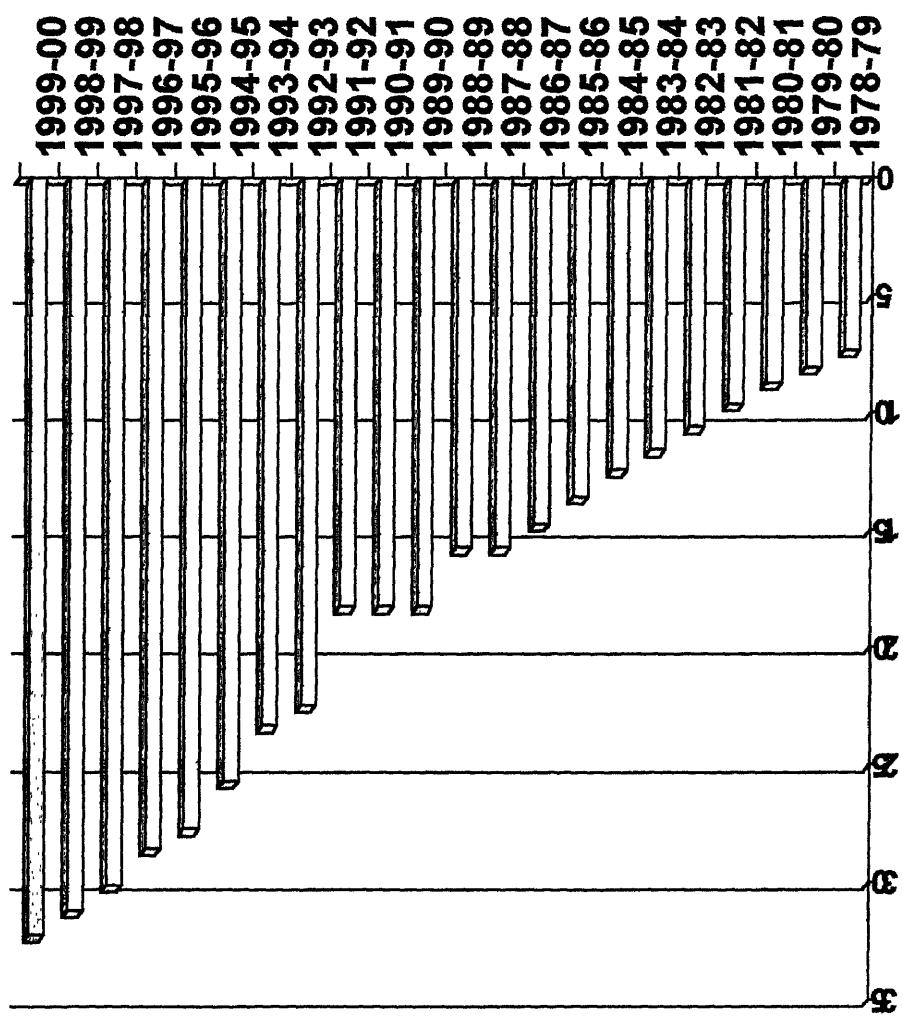
## Table 3.1

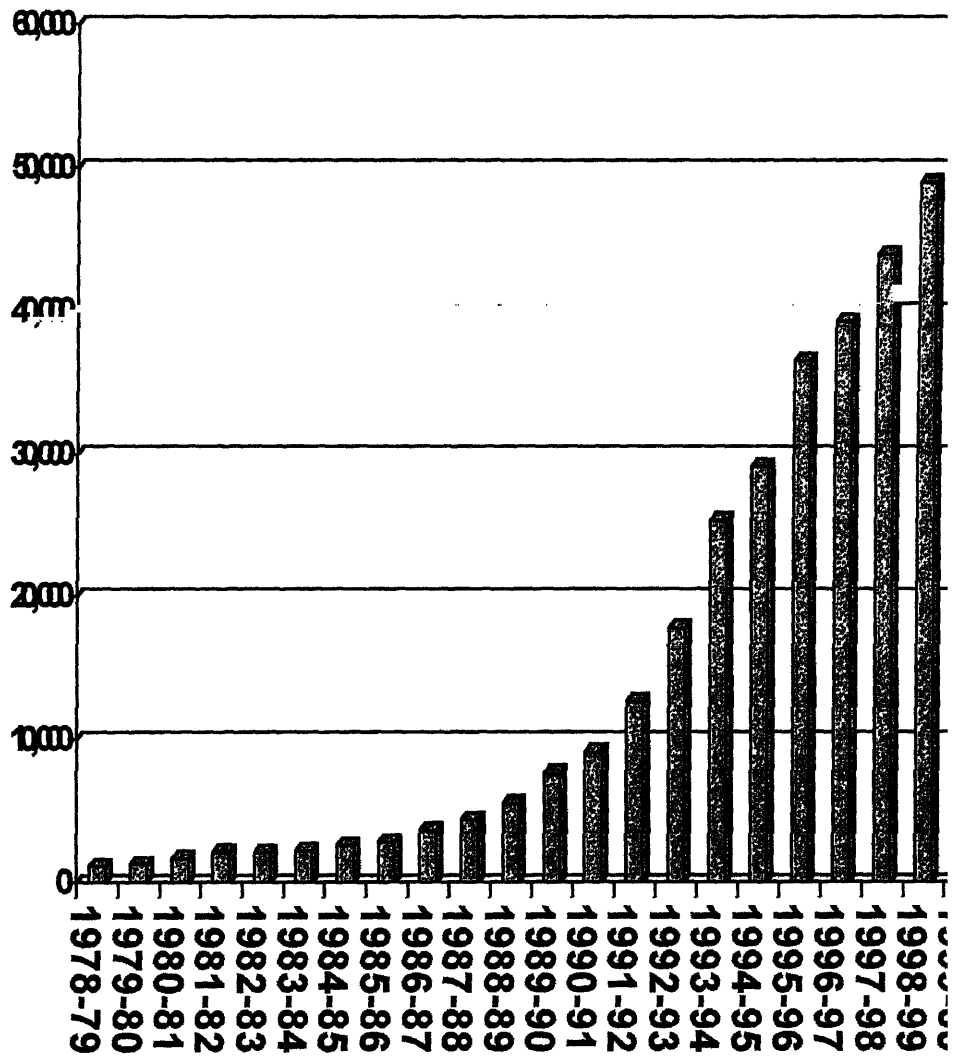
### *Small Scale Industries : Growth Over The Decade*

| YEAR | NO. OF UNITS(IN LAKHS) | PRODUCTION (IN CRORES) | EMPLOYMENT (IN CRORES) | EXPORTS (IN CRORES) |
|---|---|---|---|---|
| 1978-79 | 7.34 | 15,790 | 63.8 | 1069 |
| 1979-80 | 8.05 | 21,635 | 67 | 1226 |
| 1980-81 | 8.74 | 28,060 | 71 | 1643 |
| 1981-82 | 9.62 | 32,600 | 75 | 2071 |
| 1982-83 | 10.59 | 35,000 | 79 | 2045 |
| 1983-84 | 11.58 | 41,620 | 84.1 | 2164 |
| 1984-85 | 12.42 | 50,520 | 90 | 2553 |
| 1985-86 | 13.55 | 61,228 | 96 | 2769 |
| 1986-87 | 14.76 | 75,250 | 101.4 | 3648 |
| 1987-88 | 15.76 | 87,300 | 107 | 4373 |
| 1988-89 | 15.76 | 106,400 | 113 | 5490 |
| 1989-90 | 18.27 | 132,320 | 119.6 | 7626 |
| 1990-91 | 18.27 | 155,340 | 125.3 | 9100 |
| 1991-92 | 18.27 | 178,700 | 128.8 | 12658 |
| 1992-93 | 22.46 | 209,300 | 134.06 | 17785 |
| 1993-94 | 23.34 | 241,648 | 139.38 | 25307 |
| 1994-95 | 25.71 | 293,990 | 146.56 | 29068 |
| 1995-96 | 27.74 | 356,213 | 152.61 | 36470 |
| 1996-97 | 28.57 | 412,636 | 160 | 39249 |
| 1997-98 | 30.14 | 465,171 | 167.2 | 43946 |
| 1998-99 | 31.21 | 527,515 | 171.58 | 48979 |
| 1999-00 | 32.25 | 578,470 | 178.5 | 53975 |

Source : Economic Survey 2000-2001

**FIGURE-A**

***SMALL SCALE INDUSTRIES: GROWTH OVER THE DECADE***

## FIGURE-D

### *GROWTH OF PRODUCTION*

## FIGURE-B

### *GROWTH OF EXPORTS*

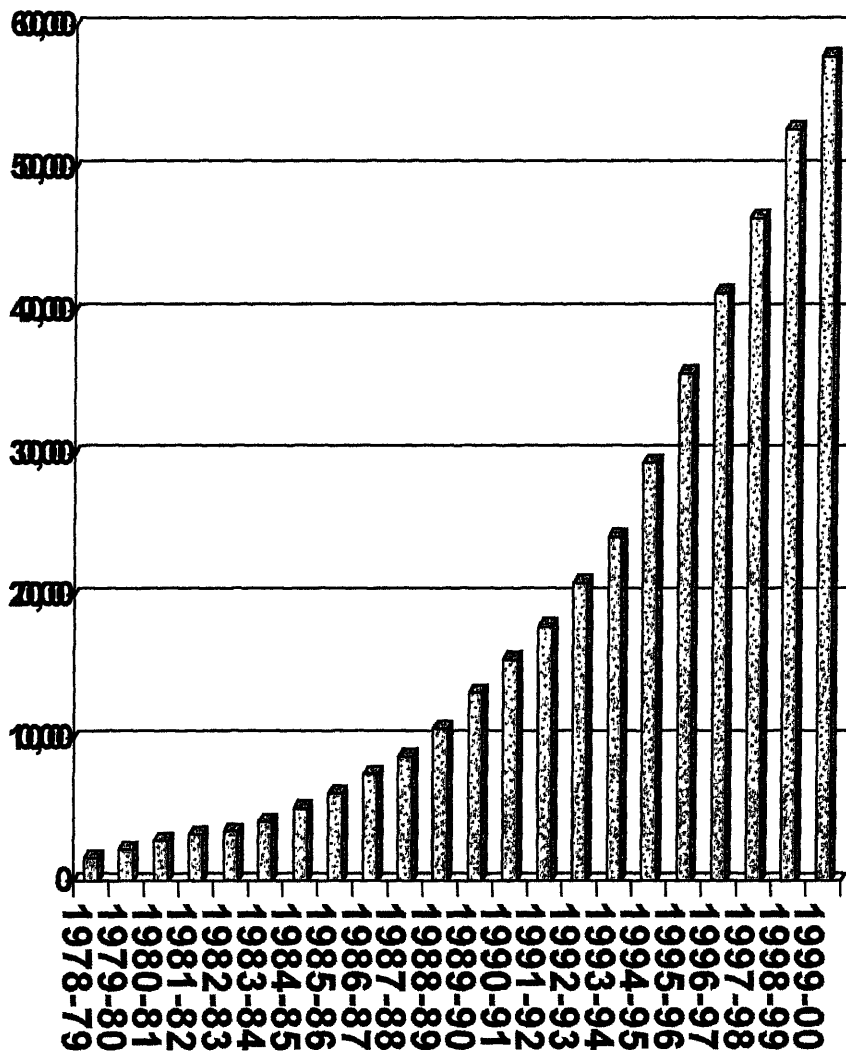
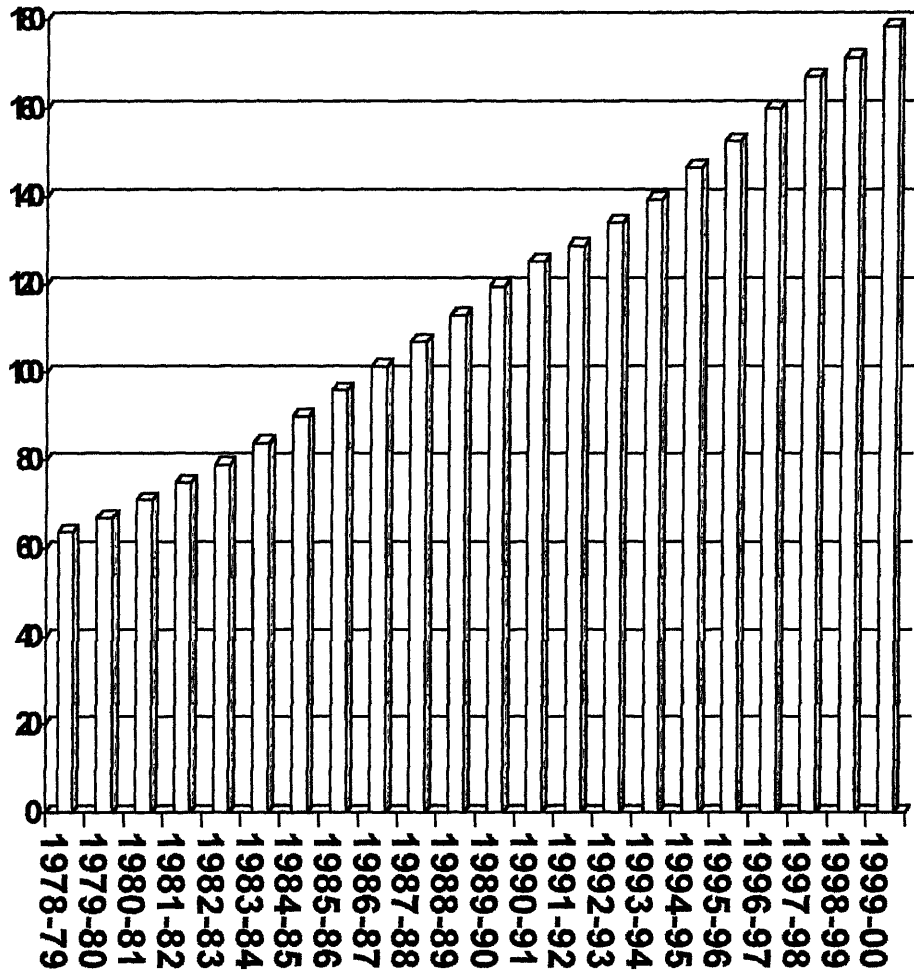



**FIGURE-C**

***GROWTH OF EMPLOYMENT***

value added would works out to 55.39 per cent which is even higher than that of the entire village small industries 51.75 per cent. On the basis of NCAER estimate, the vital role of the SSI in the decentralised sector is established as it account for about 62 per cent in non-factory and 68 per cent in village small industries (after taking both factory and non-factory units), share of small scale industry in Indian economy is increasing according to Eighth and Ninth five year plan SSI current share in value addition is our industrial production in a significant i.e. 40 per cent .

Details according to second census is given in Table 3.2

**Employment Promotion**

The root cause for unemployment in India is the over growing population which has outpaced the development of industry and agriculture for a country like India, with limited financial resources and huge reservoir of human resources, small scale industry is the only means for solving the unemployment problem. SSIs have a potential to create immediate large-scale employment opportunities which will establish that small units are more labour intensive than large units. While the output employment ratio is lowest in the small scale - sector, employment generating capacity of small-scale sector is eight times that of the large-scale sector.

**Table 3.2**

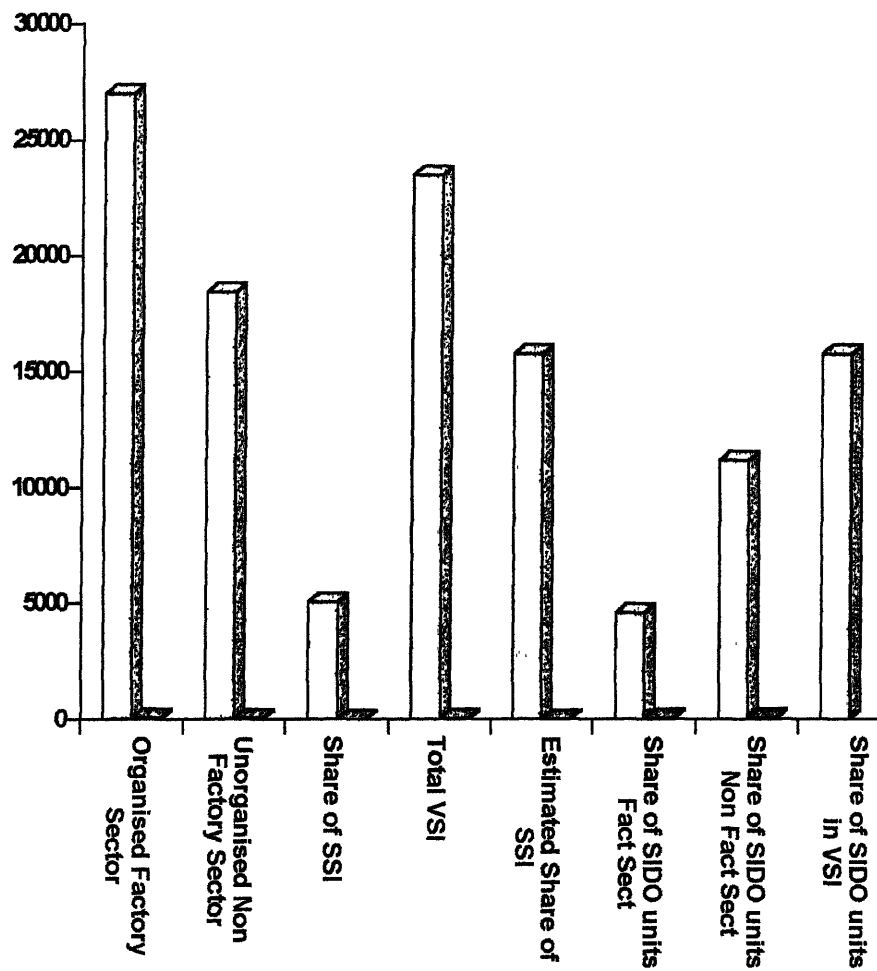
***Estimated Share of SIDO Units (SSI) in Net Value Added in Manufacturing (1987-88) at Current Prices***

| Particulars | Net Value Added (Rs. Crores) | % Share |
|---|---|---|
| Total Manufacturing | 45422 | 100.00 |
| (i) Organised (Factory Sector) | 26980 | |
| (ii) Unorganised (No Factory Sector) | 18442 | 59.40 |
| (iii) Share of SSI (i) | 5066 | 40.60 |
| (iv) Total VSI (iii+i) | 23508 | 11.15 |
| (v) Estimated Share of SSI | 15805 | 51.75 |
| (vi) Share of SIDO Units (Factory Sector) | 4598 | 17.4 |
| (vii) Share of SIDO Units (Non Factory Sector) | 17207 | 60.77 |
| (viii) Share of SIDO Units in VSI | 15805 | 67.23 |

Source CSO 1992 and Second SSI Census (1987-88)

Contribution of small scale industries in employment generation

# FIGURE- (E)

*ESTIMATED SHARE OF SIDO UNITS (SSI) IN VALUE ADDED IN MANUFACTURING (1987-88) AT CURRENT PRICES*

is increasing since independence it can be seen in the figure-1 In 1980-81 SSI contribution in employment is 71 lakhs which was increased to 178.50 lakhs in 1999-2000. Although traditional industries are providing employment in greater number than the modern small sector. If industry wise analysis have been done it reveals that employment growth rate in hosiery and readymade garments, leather and plastic products paper and cater products wood products rubber paper products and printing was higher than the average rate employment growth in the entire SSI sector.

Thus from the above analysis it is clear that the SSI has been accorded a key role in the industrial and economic development strategy mainly to achieve the twin objectives of rapid industralisation and expansion of employment opportunites on a decentralised and dispersed basis. The survey indicated that there is a need for a disintegrated analysis to identify industries such as readymade garments, electronic component which have higher potential for productive employment then they can help more in employment generation.

**Income Generation**

The SSI has been expected to play an important role in achieving the socio-economic objectives of reduction in inequalities of income both between different groups and regions. The promotion dispersed and decentralised growth of SSI creating accelerated employment opportunities at a relatively low cost of capital, and overall widening of en-

trepreneurial base may help in achieving the objective of growth and social justice.

SSI has been playing a significant role in the national economy in the last 2-3 decades as compared to pre-independence era and fifties the share of the SSI has considerably by expanded within the village and small industries sector in terms of both output and employment and thereby it makes a significant contribution to generation of income in the manufacturing sector. Although it is difficult to collect data on income generation by the SSI among different income groups. The first and second SSI census (even after taking cognizance of their limitation) provide information on generation of income over a period according to these two census, the net value added at constant prices increased by 8.84 times from Rs. 841 crores to Rs. 3230 crores during 1972-73 to 1987-88 exhibiting a growth rate 9.39 per cent An analysis of the annual survey of industrial and economic census data (1978-1979 to 1984-85) also shows that there has been substantial growth in output and value added in the SSI, particularly since the later part of the seventies, there is , therefore, no denying the fact that the SSI is making a significant contribution to income generation

SSI also help in providing profitable opportunities to middle income groups and relatively less affluent among the rich who could not invest in large and medium enterprises to take the risk of making heavy investment. To that extent it seems to not only to mobilize resources

S.S. Khanka : Industrial sickness in India, Commonwealth Publishers, New Delhi, 1995, page 130-31

from a very large number of entrepreneurs but so also spreads out widely the income generated by it.

On the basis of above indicators it can be broadly inferred that over the year the SSI has made a positive contribution to income generation and its wider distribution of course, use of better technology by many a small unit would have led to better productivity and larger contribution to the growth of national income there is a ample scope for that particularly in the numerically large sub-sector of tiny enterprise.

**Contribution In Production**

Small Industry has been contributing significantly to the Gross National Product of the country. The total production of small industry was Rs. 7,200 crores in 1973-74 which rose to Rs. 21,635 crores in 1979-80 and to Rs. 61,000 crore in 1985-86 and in 1999-2000 it increased to Rs. 578,470 crore.

It is important to note that the output of the small-scale sector rose faster that than of large-scale sector. The total value of production by village and small scale industries during the seventh five year plan is projected to rise to Rs. 83,069 crores from Rs. 49,027 crores anticipated during the Sixth plan period. The modern sector in SSI includes small scale industries and power looms. The traditional sector consists of handlooms, khadi and village industries the production of small scale industries is expected to increases at an annual growth rate of 12 per

cent (Ninth plan period)

Similar is the increase in powerloom sector, even in the traditional sector, production is likely to grow at the annual average rate of about 11 to 12 per cent this only underlines the vibrant nature of the SSI sector. Ninth plan mentions that during the last few year " the growth of SSI sector in the nonreserved areas has been higher than in the reserved categories which is proof of their inherent strength and its resilence of the small scale sector and its ability to respond to the challenge of market forces.* Figure 2 reveals the encouraging role of SSI in production It is also cleared that if a big push is given to SSI sector it can become a stabilizing factor in a capital scarce economy like India by providing a higher out-put capital ratio as well as a higher employment capital ratio.

**Contribution In Exports**

In the early years of their growth SSI were mainly catering to domestic requirement and played an important role in import substitution by producing a large number as consumer goods and durable simple machine tools , parts and components with the expansion and diversification in the SSI, on the one hands and favourable international trading environment for labour intensive products in seventies and eighties, the contribution of SSI to exports has been increasing significantly. In 1980-81, the share of the SSI in India's total export was Rs. 1643 crore which has steadily gone up to Rs. 53,975 crore in 1999-2000 In some areas

of Indian exports the bulk of exports are generated in the small scale industries, these include hosiery and garments, leather and leather products marine products, and cash kernels. The SSI also makes a significant contribution in the export of engineering goods,chemical and chemicals products and electronics. Besides, small industry also contribute indirectly in the exports of large and medium scale industry by supplying parts and components that go in to the assembly of those products Figure-3 shows that

Due to the increasing share of small scale industries in export. Government has raised the ceiling of investment in plant and machines in case of exports oriented small units. But this may help but only to limited extents reservation of certain products for the SSI in a middle to large scale exports from medium and large scale industries.This has now become vital to meet the quality requirements of ISO-9000 and similar standards the SSI is already making a very significant contribution to India's exports (Figure**) but it can be enhanced much more by concentrating efforts on improving quality, design, packaging and technology of units manufacturing exports products and help and guide them in marketing through provision of dependable and updated export marketing intelligence and other inputs,Efforts may also be made to promote organic and healthy relationship between small produces and export houses/trading houses.

Above discussion reveals that role of small scale industry in In-

S.S. Khanka : Industrial sickness in India, Commonwealth Publishers, New Delhi, 1995, page 130-31

dian economy in very important. The good performance of the SSI (as shown in Table 3.1) is evident from their number production, employment and foreign exchange earnings. Therefore SSI has made significant contribution inspite of tough competition from large sector and have also played an important role in utilizing local raw material and natural resources.

# CHAPTER IV

## ROLE OF GOVERNMENT IN GROWTH

Central and State Government

Reports and Recommendations Various Committee

Government Policies

# Role Of Government in Growth

The government of India is taking a strong interest in the growth of small enterprises, for a variety of reasons they are suitable for the Indian economy which is short of capital and labour intensive. Generally in our current economy with corporate amalgamation and large industries/enterprises streamlining their operations, the small enterprises are the net generators of employment. They are labour intensive. In India small enterprises provided 140 lakhs of the net new jobs created with 23 lakhs small unit in 1993-94. They contribute as much as 35 to 40 per cent of direct exports as the economy needs business which brings in foreign currency through exports of manufactured good or services and visits by tourists many of these ventures are very small. They have a higher per unit output of capital invested and per unit of energy used. They reinvest out of necessity a major portion of their profits and thus help in increasing national production. They are more flexible and innovative than large firms. They may reduce economic and regional disparities and thus fast social stability and help in dispersal of economic power, better save small local markets in solving problems of unemployment and underemployment, less damaging to the environment, help in harnessing youth vigor.

**The Role Of Central And State Government**

In the 1950s, the central government had a legitimate rationale to foster small and medium scale enterprises since it took the lead in initialing this new idea. Since then, however most states have created adequate administrative infrastructure to address the needs of the small and medium scale enterprises. Most states have a minister and secretary designated to supervise the small scale sector. They also have a director of industries, supported by a large number of functionaries, to assist him or her in promoting industries. The central government, therefore, should increasingly withdrawl from the implementation of most promotional programs and regulatory functions governing the small and medium-scale industry. Central government agencies will serve a more useful purpose if their duties are largely confined to policy formulation and institutional development. The centre government should take the lead in promoting the kind of new approach that is being suggested here for the support of small scale enterprises. They would require consultation with state government the result of which could be a support package for small enterprises which the state governments could then implement. Such a support package should have enough flexibility to take care of the many differences that exist between states. The centerpiece of the new approach is an increasing public private partnership in setting up support system for small scale enterprises. The central government will always continue to have the responsibility for framing fiscal policies, trade policies and the like. In addition, since a major require-

ment for helping small scale enterprises to become competitive is their technology upgradation, the central government should also assume such a role in promoting technology development programmes in the support of the small scale industries. In this context the central government can take on special projects such as building linkage with universities and other training institutions in India and abroad as well as with cluster overseas. It is also better positioned for residual function such as monitoring international trade development affecting the small scale industry as well as liaison with international development agencies.

Small Scale Industries bristles with inconsistencies that can only be sorted out by national agencies. The statistical information published by the DCSSI is not consistent with that provided by the National Accounts Statistics. The expert group therefore recommends that the Central Statistical Organisation and the Ministry of Industry form a group to improve the quality of statistical information on small scale industry as well as to identify additional needs of the Industry and other users of this Information.

In the area of extension activity, the functions of the central and state government agencies overlap and create confusion among entrepreneurs. The Small Industry Development Organization (SIDO), the principal promotional agency at the centre, through its Small Industries Service Institutes (SISIs) and extension centres for specific products, provides technical and management, consultancy for new and established

training in technology and management, conducts entrepreneurship development programmes, Techno-economic surveys, etc. Similarly, the District Industry Centre (DICs) the focal point of promotion at the state level, have a General Manager who supervises extension services for technology, raw materials, credit, economic investigation, training, marketing and village Industries The services at the DICs are rudimentary and more complex problems are referred to the SISIs

Evaluation of the impact of such services predictably find that government services are plugged by insufficient resources and poor quality of services. According to one state level study, 60 per cent of entrepreneurs are not even aware of the services provided by the District Industry Centre. This is not surprising since most users are not happy with the services about 61 per cent in a sample investigated by the NCAER, reported were not satisfied .

The promotion of small and medium scale enterprises is an aspect of regional development that is best pursued by state governments. On the otherhand, the present structure of institution governing small enterprises has been created in the image of central Planning and is unable to respond to local aspiration. The growth of small and medium scale enterprises is usually rooted in peculiar characteristics of a region e.g. small scale software enterprises have multiplied in Banglore sustained by a tradition of technical education dating back to colonial times. State government need greater latitude to fashion the mecha-

nism appropriate to their endowment, skills and historical peculiarities.

District Industry Centres were established as the main link between the state and central government and small scale industries where as they were originally set up as promotional agencies The DICs currently function mainly as regulators, they are used extensively as registration centre for small scale industries whereas much industry has been delicensed, they are continued to be various requirement for the registration of small scale industries. Such registration is usually necessary to avail of the various incentives that are available to small scale industries, The DICs administer the various incentive programmes of state government such as capital subsidies, fiscal incentives, raw material allocations, power subsidies and the like. They are also supposed to provide clearances in a single window. However, evaluation of District Industry Centre suggest that they have not succeeded in achieving their limited objective of single windows . However, evaluation of District Industry suggests they have not succeeded in achieving their limited objective of single windows clearance entrepreneurs still have to shuttle between a variety of departments for clearances of projects. The extension work of DICs has languished as 46 per cent of them were found to have not updated their technical and information set up. A fair assessment would be that the DICs are unable to cope with administrative overload.

The Expert Group therefore recommends that a completely new

look be taken on the functioning of the District Industry Centre in order to make them more promotional rather than regulatory. DICs would acquire additional significance if they can weave a web of linkage with other institutions. They should function as key contacts for information flowing from a variety of channels for dissemination to local business firms. The District Industry Centre can function with greater efficiency if they can draw on other resources from business. They can work in association with local councils constituted of members from industry, banks, training institutions etc. The function of council should be to solve problem encountered day-by-day.

Presently, a large number of sector specific institutions are involved in the promotion and administration of small enterprises. Most of these institutions have been setup by the central government at various times, they include institutions like the Khadi and Village Industries Commission (KVIC) the khadi and village Industries Board (KVIBs) Development commissioner (Handloom), Coir Board, Silk Board, Tea Board, etc. Most of these central promotional agencies do not have distinct presence at the field level. Further, regulatory agencies like the LabourDepartment and the Pollution Control Board function in entirely separate setting with little coordination with promotion agencies. The result is regulation by multiple agencies and insufficient presence of the promotional bodies at the decentralised level. It has been said earlier that a good system of decentralised administration should have minimum regulatory channels and a single source of information. Together

with this, there should be multiple channels of support and services with integrative features. To achieve this purpose would be advisable to set up a flexible broad based District Enterprise Promotion Agency (DEPA) to replace the present DICs. It should be constituted as a broad based district level society with representation from the Department of Industry revenue, labour, environment & sales tax, banking institutions, state financial institutions, state industry corporations, small industry association and the local governments. The representatives of the specialised promotion agencies of the central and state government could be standing invitees to this body. Conceptually, this agency can be developed an autonomous agency functioning as a single stop service for information, grievance redressal, clearness, coordination and project planning. Similarly the, department of Small Scale industries is conceived to be structured as an umbrella body for the promotion of small scale enterprises. Since this department is now envisaged to promote small scale enterprises in general, the Expert Group recommends that its nomenclature be now changed to Department of Small Scale Industries and Business Enterprises. With this structure in place, we expect that coordination at policy and conceptual level will be achieved at the central level in the department of SSI. Similarly coordination and integration at the field/execution level will be achieved in the District Enterprises Promotion Agency.

It would be useful to explore how such an agency could be made more autonomous and service oriented. Effective support of small

scale industries now requires greater technical expertise than is presently available in the DICs. An autonomous structure would help in making it possible to recruit people with appropriate expertise which would otherwise not be feasible within the current government structure. The efforts must be made to form public-private partnership so that government could continue to provide substantial funding support- say sliding from 90 per cent now to 50 per cent in 10 years time. The rest should be raised from industry association partners and from fees for services. The funding pattern would have to vary between districts. Those districts which have industry cluster would be able to contribute larger proportion of funds whereas in less developed district the government would have to shoulder greater responsibility. Such restructured DEPAs should function as centres for bringing together different local institutions on an organised basis to solve local day to day problems. Local councils should be formed involving representatives of government, banks, industries, training institutions, government regulators and the like. Such a forum would provide the basis for initialing promotional activities which are necessary for the support of small scale enterprises in the district. In order to encourage specific support activities for technology upgradation, pollution control, quality upgradation etc. The government should set up a fund at the state level from which matching funds could be sort for the promotion of these activities.

All these does not mean that the state should wash its hands of its role as a promoter of small scale enterprises. As outlined in the be-

ginning there is enough evidence of market failure and externalities that there is a clear promotional role for the states. But this must be made much more performance oriented. Furthermore, the state should not try perform functions that are now quite ably perform by private sector itself.

In general, state intervention will continue to be relevant in the future primarily to reap external economies from collectively action. However government budgets will have to be proportionate to performance. Part funding will be means to extract results from expenditure incurred.

**The coordination of Support to Tiny Units.**

The performance of the existing public sector units like the DICs and SIDO service institutions have been found to be particularly lacking in providing service to tiny units. Lack of interaction networking and proper coordination among various agencies are the other weaknesses that have resulted in special difficulties in the sphere of extension services for tiny units, there is an urgent need to evolve an institutional mechanism to facilitate co-ordination at all levels of activities relating to entrepreneurship/small business promotion. Though the district and state level institutions are currently given the responsibility of extending support to the tiny enterprise sector, as suggested above, the government should look forward to the formation self-regulating resource networks at the district and state levels, where the support institutions like financial insti-

tutions, entrepreneurs organisations and public support organisation work in collaboration with entrepreneurs and industry associations as partners in the process of removing barriers to entry into business and industry of tiny units, and fostering their growth.

The area of operation of the state and district level support network should be focused sharply on information gathering, dissemination and advisory function to the tiny sector. The new entrepreneurs are in need of such services at the pre-investment/start-up phases at low cost, assisting such business support enterprises such support measures would go a long way in providing both adequate financial and technical support services to small scale industries while increasing new small scale enterprises themselves, Similarly, the private sector should be encouraged to invest in infrastructure and common professional services such as training and quality control in clusters. Government should only share part of the capital costs.

**Private sector technical support for Tiny Units.**

Tiny enterprises are increasingly sourcing services from the private sector, though they do get some assistance from the existing government agencies. Given the nature of tiny enterprises and their owner entrepreneurs they generally find it easier to take the assistance of private small service enterprises or of individually. Among the functions of the special tiny enterprise for which help other tiny enterprises state government could provide some subsidy element for promoting such

activities. In this manner collection of data relating to market, technology, business opportunities etc. could be done on a commercial basis with the help of young professionals .The data thus collected should be computerised and made available to the entrepreneurs, business counsellors and entrepreneurs trainer motivators on payment.

A cadre of young business counsellors equipped with the knowledge and skills of opportunity identification, business planing and knowledge about procedures and formalities could be created. They would be attached to the proposed DEPAs and existing service institutions Retraining of the existing extension officers to develop counselling skills is also recommended.

The business/industry associations may be encouraged to start counseling services. The state through the existing National Entrepreneurship Development Board (NEDB) of the ministry of industry should help those who are willing to start such services build a corpus with one time financial support on a matching basis.

**Corporatisation of Government Extension Agencies**

Most government extension agencies ought to be reorganized as corporations so that their ability to compete with the private sector is not impaired due to organizational reasons. Thus the Regional Testing Centers and the Field Testing Centers are potentially capable of generating, their own revenue and need only supplementary support from the

government for a few years. Similarly the Process ad Products Development Centers the workshops the Central Tool Rooms, the National Institute of Entrepreneurship and small Business Development in Delhi and the National Small Industries Extension Institute can also function as companies with part funding from the government.

The earlier system of technical assistance by Small Industry Service Institutes is outmoded since they are not able to keep pace with the rapid changes in technology. Evaluation studies suggest that SISIs are able to cater to the needs of low tech industries but not that of new industries such as electronics or even auto-components. Evidently, SISIs have a low motivation to upgrade their skills to meet customer requirement. Their energies are dispersed over technical assistance as well as management consultancy and related services. The Experts Group recommended that SISIs should be corporatised and functions such as technical assistance and management should be divested to separate companies, in the transitional period, the corporatised SISIs should be supported by matching contributions twice the value of their market revenues. This should be lowered to half their market revenue over a ten year period. At the end of the ten year period when they are able to independently earn their revenue by their services, the full equity of such corporations should be disinvested in favour of the private sector.

The recommendation for corporatising the various existing government technical extension agencies is supported by the experiences

of the National Small Industry Corporation (NSIC). Because of its corporate character it has been able to provide leasing, hire purchase facilities and other services to small scale industry quite successfully. The entry of new private finance companies which offer similar services is now providing it with significant competition. NSIC should also now be looking for new roles such as being a guarantor for tiny business.

Finally, specialized function such as information ought to be assigned to institutions which pursue these tasks as part of their core activity. NISIET in Hyderabad has an information and documentation centre known as SENDOC which store and retrieves information of interest to small companies but its reach is limited. The International Trade Promotion Organization (ITPO) stores international trade data that is not widely disseminated. With the spread of information technology and internet, as already mentioned, there is now a mushrooming of small private business enterprises which are attempting to private technical information services both nationally and internationally . The government run information systems and attempt to use these new small enterprises for dissemination of the data base on that the government itself complies and runs. Once again such a project would not only provide information more readily to small scale enterprises spread through out the country but also would provide a new employment and business oportunities in such enterprises themselves. If such enterprises disseminate information compiled by a credited government agencies the authenticity of the information would be insured.

**Reports of various committees constituted by government for development of Small Scale Industry.**

In the recent past, several committees were constituted for studying various aspects of Small Scale Industry the brief particulars of their reports are as follows :

**Nayak Committee**

RBI had constituted a committee in December 1991 under the chairmanship of shri P.R. Nayak. the then deputy governor to examine the issues confronting SSI in the matter of obtaining finance. as per Nayak Committee recommendation banks have been advised to :*

1. 'Banks should give preference to Village Industries, Tiny Industries and other small scale units in that order,' while meeting the credit requirement of the small scale sector.

2. Henceforth, for the credit requirement of Village, Tiny Industries and other SSI units having aggregate fund-based working capi- tal credit limits upto Rs. 50 lakhs from the banking system, the norms for inventory and receivables as also the first method of lending will not apply. Instead suchunits may be provided working capitail limits computed on the basis of a minimum of 20 per cent of their projected annual turnover for new as well as existing units.

3. The banks should step up the credit flow to meet the legiti-

K.Ashwathappa : Essentials of Business Environment, Himalaya Publishing House, 1999, page-335

mate requirements of the SSI sector in full during the 8th Five Year Plan. For this purpose the banks should draw up Annual Credit Budget for the SSI sector on a bottom-up basis.

4. An effective grievance redressal machinery within each bank which can be approached by the SSI in case of difficulties has to be set up.

5. Procedure and time-frame laid down for disposal of loan applications received from SSI borrowers should be strictly enforced. Whenever application for fresh limits enhancement of existing limits was not considered favourably by the sanctioning official or where the limits applied for are proposed to be curtailed, the same should be referred to the next higher authority with all relevant particulars, to ensure scrutiny by an independent authority and the later should confirm the decision of the sanctioning official or otherwise dispose of the same, within a time-bound manner.

6. Banks should adopt the single window scheme of SIDBI for meeting the credit requirements of small units.

7. Banks should take immediate steps to ensure full adherence in letter and spirit by all their branches and controlling offices to the RBI guidelines in the matter of financing- the working capital require- ments of small scale units, rehabilitation of sick small scale units, coordination between commercial banks and State Financial Corporations (SFCS)

in meeting the credit requirements of these units and other related aspects.

8. Training to bank staff to develop right aptitude, skills and orientation in regard to finance to the small scale sector. Training input may also consist of awareness of the importance of small scale sector from the point of view of creation of additional employment opportunities, exports, etc. and a smooth loan recovery in respect of healthy small scale units. Banks may also consider awarding trophies to branches for outstanding performance in financing SSI units of public recognition.

9. Banks should dresist insistence on compulsory deposit mobilisation as a 'quid pro quo'for the sanction of credit facilities to the units.

10. State Financial Corporations (SFCS) to act as the principal financing agency for SSIs in 40 out of the 85 districts each having more than 2000 registered SSI units, to take care of both term loan and working capital requirements of all new SSI units which can be financed under the Single Window Scheme' (SWS) of SIDBI. Com- mercial banks should act as the principal agency under the SWS in the remaining 45 districts as well as in the rest of the country. It has also been decided that in order to effectively discharge their responsibility, commercial banks should open specialised branches to cater to the SSI clientele in the 45 districts where they will be acting as the principal financing agency as also in the 119 districts each having between 1000 and 2000 registered SSI units.

### Abid Hussain Committee

Following the recommendations of Abid Hussain Committee on small and medium enterprises, 15 items, which were earlier reserved 'for exclusive manufacture by the SSI sector, were dereserved with effect from April 1997. These items are ice-cream. vinegar, rice milling, dal milling, biscuits, poultry feed except in pellet form, synthetic syrups, corrugated paper and boards, hair dryers-all types, hub cups-auto, ornamental fittings-auto, spot lamps assembay auto and stop lamps assembly (excluding combination lamp assembly) tail lamp assembly, auto and ash-trays, car fittings.

On the recommendations of this committee, the investment limit for SSI units was also increased to Rs.3 crores from Rs. 60 lakhs and Rs. 25 iakhs from Rs. 5 lakhs for tiny sector. Composite loan limit for SSI units was also increased to Rs. 2 lakhs from Rs.50,000.

## Kapur Committee On SSI

### Summary Of Major Recommendation

The summary of other major recommendations of the committee are:-*

- In the post liberalisation era, SIDBI finds it difficult to cross subsidies its credit to SSI sector. Primary Landing Institution seek refi-nance from SIDBI at rate which is below the average cost of funds of SIDBI. This calls for SIDBI managing resources at low cost such as in-

S.Krishnamurthi : Small Scale Industries Policy,Rules and Regulations, Orient Publishing Company Allahabad,1999 page 181

crease in its equity capital, floatation of tax free bonds by it, placement by government with its special dispensation funds, increased allocation of NIC (LTO) funds of RBI and government providing exchange risk cover for SIDBI against its external commercial borrowing.

- LIC/GIC and pension funds should lend a portion of their funds to SIDBI for on lending to SSI.

- SIDBI should be accorded the same role and status as the nodal/co-ordinating agency for financing of small industries as is now available to NABARD in the field of agricultural development.

- SIDBI may consider launching Industry Specific Venture Funds. It may set up immediately a few Software Venture Capital Funds in collaboration with software Professional Association or their expert bodies and examine those for food processing and industry related export services.

- The Market Development Assistance Fund of SIDBI has not really taken off. SIDBI may review the scheme with the help of committee of SSI entrepreneurs who are exposed to marketing in a competitive environment. The assistance from the fund should be made available to companies for marketing their products directly or to set up innovative marketing system like Amway and Avon .

- A new fund called the 'Reconstruction Fund' may be set up in SIDBI and initiative there of be taken by Government / RBI. Initial

corpus should also be provided by Government/RBI. This should be linked with all the public sector banks through appropriate lines of credit.

- Branch managers should be delegated powers to grant ad hoc facilities to the extent of 20 per cent. Of the limit sanctioned. The manager could also draw upon 'Reconstruction Fund' to provide margin money to the extent the borrower is not able to provide for the additional facilities made available. If there is a shortfall even after the provision of this additional margin money from the reconstruction fund, the bank should permit borrowers to make good the shortfall over a period of time out of the future profits of the units.

- At least 40 per cent, of the resources of SIDBI should be earmarked for tiny sector enterprises having investment in plant and machinery upto Rs. 5 lakhs. It can either take up such units itself or can refinance the loans granted to such units.

- Government may expedite enactment of a new Company Law incorporating a Chapter on co-operative companies which could be looked after by the Registrar of Companies. Government may also explore to promote Urban Co-operative Banks under the Central Multi State Co-operative Societies Act which could be suitably amended to provide for more self-regulation and autonomy.

- Some specific recommendation made by khan committee regarding restructuring of the weaker SFCs may be taken up for

prompt decision by the Union Government. SIDBI should be helped through provision of funds etc. to take up a plan for financial restructuring of these bodies, State Government because of their poor position may not be able to fund the restructuring of SFCs. State Governments' share should either be substituted and provided by SIDBI or by the Government of India.

- Funds for lending under Single Window Scheme by SFCs should be placed by SIDBI with the SFCs in adequate measures. Alternatively, SIDBI should receive proposals from SFCs to do the lending itself directly in such cases till the health, particularly, of weak SFCs, is restored.

- Each SFC should get into an MoU one or two public sector banks and participate in joint lending in which both term loan and working capital is provided jointly. For example 80 percent of the term loan could be given by SFC and 20 percent by bank. In the case of working capital which may be sanctioned at the same time as the term loan, the proportion could be reversed i.e. 80 per cent by bank and 20 per cent by SFC. However, the working capital account could be managed and supervised by the bank through its specialised SSI branches.

- SIDBI should sign MoUs with the State Governments to provide some assistance to SFCs prior to the approval of assistance packages by the government of India / SIDBI. In return for such funding, State Government could either agree to the appointment of an experi-

enced banker as managing director of the Corporation or agree to provide a panel of its officers with the right kind of background and experience and SIDBI could select one of them for appointment as managing director for a minimum term of 3-5 years.

- A reliable agency, in private sector or joint sector, should be promoted to help small entrepreneurs in the preparation of project profiles and other papers. Industry and trade associations in different States and districts should take initiative in this regard. CII and WASME should design software packages for assisting entrepreneurs in filling up application forms and other dealings with the banks. IBA should get copied and made available to each branch, specially, specialized SSI branches.

- RBI should review the application forms and ensure that superfluous items, if any, are deleted.

- The application form prescribed for facilities upto Rs. 2 lakhs could straightway be permitted to be used for facilities upto Rs10 Lakhs and that prescribed for facilities upto Rs. 15 Lakhs for such facilities upto Rs. 50 lakhs. Similarly, the form for limits upto Rs. 1 crore could be prescribed for facilities beyond Rs. 50 lakhs and upto Rs. 2 crore. The fourth category of proforma could be used by any SSI unit requiring facilities beyond Rs. 2 crore.

- Bank should open more specialized SSI branches or shift/ restructure some of their existing branches and convert them into

specialised branches for financing the small scale sector. The banking sector within the next two years should ensure collectively that at least one such branch is opened in every district of the country, particularly, at those centres where the number of small units is at least 100. These branches should be opened by strong banks only. The committee is confident that the number of specialised and profit making branches can easily increase by 1,000 within the next three years.

- The bank should ensure that specialised SSI branches entertain loan proposals from the tiny sector and village industries units unhesitatingly. Each such branch may look after upto 200 units, out of which a minimum of 150 should be from the tiny sector with loans less than Rs. 10 lakhs. This ratio should preferably be maintained in case the number of such units at a branch is less than 200.

- Selective specialised branches should be encouraged to innovate and experiment with new products such as factoring services and business credit cards.

- Steps should be taken to open new SSI branches for servicing particular industry in a big cluster. These specialised branches should be managed by competent staff and should be properly equipped with computer and communication lines. A beginning should be made by opening such branches for electronics and software industries.

- The committee was informed that one field officer in a specialised branch is able to handle about 50 SSI units. The number of

fields officers should be sufficient to take care of number of accounts entertained by a branch. Properly trained and preferably technically oriented direct recruits in adequate number should be posted in specialised SSI branches.

- Further delegation of sanctioning powers should be made in respect of specialised SSI branches in particular and other branches in general for prompt disposal of application.

- Specialised SSI branches should be linked to national and international data banks and information centres including internet to enable them to provide latest information to their clients.

- The limit of composite loans should be enhanced to Rs. 5 lakhs so that the entire requirement of such units is met by single documentation and security and charges creation process. The facility should also be extended to all SSI units requiring loans upto Rs. 5 lakhs irrespective of their location.

- Only bank should entertain project both for term loans and working capital of borrowers with loan requirement, upto and inclusive of Rs. 5 lakhs. Only one organisation either SFC or a bank may sanction both the term loan and working capital for projects requiring institutional credit for more than Rs. 5 lakhs and upto and inclusive of Rs. 25 lakhs. For projects having loan requirement in excess of Rs. 25 lakhs, arrangement should be made by SIDBI with the public sector banks to have an MoU signed between the SFC and select public sector banks

active in different region of the country for joint financing, whereby both the term loan as well as working capital should be shared along with sharing of security on pari passu basis. However, the borrowers in this category who want to avail such facility from a single agency i.e. bank or SFC should be allowed to exercise their option.

- The scope of leasing hire purchase and equipment finance should be expanded and obstacles removed including regular hurdles. Financing institution should be advised to have a flexible approach in fixing margins for financing institutions should be advised to have a flexible approach in fixing margins for financing of DG sets, modernisation or technology upgradation of requirement required for pollution control or obtaining quality markings under International Standards organisation (ISO) programmes. Bank/SFCs may consider utilising the funds available from the national equity funds to be treated as margin.

- Reserve banks of India should have dialogue with the state Government and the central Government regarding delays in providing subsidies for financing the projects of SSI units. The state government may be well advised to discontinue schemes of subsidies if their financial strength does not warrant bearing this burden. However where there are temporary financial problem, RBI should advised banks to consider providing bridges loans to cover the amount of subsidy. The state government should agree to bear the interest cost on such bridge loans.

- There should be at least one Department of Recovery Tri-

bunal (DRT) in each state and their functioning be smoothened by providing adequate support staff for expediting recovery of bank loans above Rs. 10 lakhs.

- Regarding loan below Rs. 10 lakhs, the state government should provide all facilities and assistance for the recovery of these loans, special revenue courts should be set up in each state to deal with the SSI cases. The state governments should also get in touch with the respective High court and get a few civil courts (one at every district headquarters with proper infrastructure) designated as recovery of bank dues courts. These courts should deal with loan recovery matters in a summary manner. Government can also examine treating such loans on the pattern of agricultural loans on the pattern of agricultural loans upto Rs. 10 lakhs as government dues and recovers as arrears of land revenue. The bank should take advantage of the Lok Adalat to settle dues upto Rs. 10 lakhs. The banks should appointed special officers or designate exciting officers having aptitude for works relating to recovery, who should exclusively deal with recovery.

- The definition of sick SSI unit may be changed to read as under :

(a) If any one of the borrower accounts of the unit remains substandards for six months i.e. principal or interest in respect of any of its borrower accounts has remained overdue for a period exceeding one year.

(b) there is erosion in the net worth due to accumulated losses to the extents of minimum 50 per cent of peak net worth during the previous accounting year and

(c) the unit has been in commercial production for at least three years.

- SLIICs should be converted into statutory bodies under a special status and given adequate statutory and administrative power to enforce their decision on bankers and financial institutions and other agencies concerned with the rehabilitation of potentially viable SSI units.

- To encourage banks to take up rehabilitation of potentially viable sick SSIs, some relaxation in income recognition and asset classification norms should be provided .A period of one year both for the additional exposure as well as old outstanding advances, to such SSI units should be permitted and these facilities treated as standard advanced for a period of one year whereafter the classification should be changed depending upon the record of recovery.

- SSI should get a special treatment in the matter of interest rates. In view of their contribution to the economy, they should normally, get credit at PLR.

- The overall interest payable by SSI should remain within their existing parameters fixed by RBI, i.e, maximum of PLR plus four per cent.The PLR should take care of the cost of funds by the

bank.Additional spreads over the PLR will be used as premium for guaranteeing the repayment of the loan.Naturally,SSI units,with good track record will have to pay lower premium and can derive some advantage out of lower spreads.

- The existing credit guaranteeing scheme being operated by DICGC should be scrapped and be replaced by some more objective and suitable scheme to be operated by a corporation.Reserve Bank of India should take initiative for its set up by SIDBI.The proposed corporation should cover only those loans which are sanctioned by public sector banks/financial institutions and where principal amount sanctioned does not exceed Rs.10 lakhs.The coverage for the purpose of guarantee will be limited to 80 per cent of the amount in default. Depending upon the experience gained over a period of time, the scheme can be extended to loans with higher credit limits.

- The proposed credit corporation should have a strong corpus of at least Rs.500 crore which can be contributed by SIDBI, NABARD, Government of India, State Governments and Banks.The proposed corporation may appoint either selected bankers as their agents or the corporation can set up its own offices in different states for extending such guarantees.The premium under the scheme would also be decided by the agents subject to a maximum of 4 per cent points depending upon the risk perception.

- Unlike DICGC, option to have guarantee cover or not in

individual accounts should rest with the banks .On a reciprocal basis,acceptance or not of a borrower for extending guarantee cover shall be at the discretion of the Guarantee corporation. Simultaneously, or as an alternative,the banks can set up special funds for meeting losses arising on account of defaults of repayments in SSI loan accounts.RBI should take up the matter suitably with the Government of India to ensure that necessary amendments are carried out in related tax laws to enable the banks to set up such funds and provide effective inhouse guarantee for loans granted by them.

- Reserve Bank of India should initiate appropriate policy measures for phasing out the system to collateral securities.Greater emphasis may be laid on the viability of the project and the management of the enterprises rather than on collateral security.

- A revised floor level of Rs. 2.00 lakhs for exemption of borrower accounts from obtention of collateral securities is recommended as against the existing level of Rs.25,000 In respect of other accounts,the collateral security including third party guarantee should be in relation to the risk undertaken.The committee also suggests that for loans upto Rs.10.00 lakhs,the value of collateral security or the net means of third party guarantee should not be more than 50 per cent of the fund and non-fund based exposure of the bank/financing institution.Beyond loans of Rs.10 lakhs,the banks may exercise their commercial judgement in determining the level of collateral or third party

guarantee.However,in no case a of the loan amount. Reserve Bank of India may also prescribe that at least 10 per cent of the SSI loans sanctioned by a bank branch should be without collateral guarantees.

- The committee proposes the setting up of a collateral reserve fund with an initial corpus of Rs.100 crore to be contributed by Government of India, SIDBI, NABARD, state Governments and banks with a view to providing support to first generation entrepreneurs who it very difficult to furnish collateral securities or 3rd party gaurantees.The support from this fund will be limited to projects costing upto Rs.10.00 lakhs. However,they,i.e, entrepreneurs will have to contribute to this fund by paying some token amount of interest in addition to the PLR to avail of this assistance.

- Consequent upon revision in the definition of SSI,the 40 per cent allocation for units having investment in plant and machinery upto Rs.5 lakhs may continue. However, the allocation of 20 per cent for units having investment between Rs.5 lakhs and Rs. 25 lakhs should be raised to 30 per cent.The balance 30 per cent may be given to the units with investment in plant and machinery between Rs.25 to 60/75 lakhs.

- The commercial banks should not be permitted to utilize funds earmarked for direct priority sector lending for:

(i) subscription to bonds issued by NABARD with the object of financing exclusively agriculture /allied activities as well as non-farm sector.

(ii)subscription to bond floated by SIDBI, SFCs and NSIC exclusively for financing SSI units.

(iii) Subscription to bonds issued by NHB & HUDCO.

- It would be appropriate to access the flow of credit to SSI by using data on disbursement rather than 'outstanding balances'. The committee feels that it is possible for banks to achieve a growth rate of 30 per cent per annum in disbursement targets along with outstanding balances. Reserve bank may also advised the bank of pay more attention to the backward states such as Bihar, J&k, M.P. and North eastern states while fixing the lending targets and seek progress in this behalf separately.

- Reserve bank of India may consider, in consultation with Government of India, the need to set up a Small Industry Infrastructure Development Fund for developing industrial areas in/around metropolitan cities, urban and semi-urban areas which are not covered by RIDF of NABARD. To start with a corpus of such fund, say Rs. 1,000 crore be kept with SIDBI for lending to the state Governments.

- The bank have been directed to ensure that not less than 25 per cent of total credit purchases are through the bills drawn by the seller so as to develop bills culture. RBI may examine the possibility of increasing this percentage to 50 per cent in the next year depending on the experiences gained during the current year.

- Public sector bodies/corporates/ individuals firm which delay payments to SSI beyond 90 days should not be allowed to deduct any expenditure relating to such supplies made by SSI units and adjust it again income. Section 43(b) of the income-tax act, 1961 should be amended accordingly.

- Venture capital funding has not been successful in India. The committee is of the view that the policy framework should encourage venture capital particularly for SSI sector. The policy measures required for popularising this concept should be got examined and decided. A separate legislation be enacted to promote the growth of venture capital in the country.

- The mechanism of Factorising should be got studied a fresh by an experts committee with a view to expand the scope and reach of these services to be relating to stamp duty, registration fee, assignment of contracts, etc.

- Every bank should be asked to earmark a part of its credit for setting up SSI units established by women entrepreneurs. Separate schemes could also be framed to promote women enterprises by the banks in consultants with government ministries and department engaged in developing programmes and enterprises for women.

- Funds available under the existing scheme for promoting employment in the government and semi-government agencies for persons belonging to scheduled castes, scheduled tribes and backward

classes should be profitably and gainful employed in taking up risk position in new venture set up by weaker sections, particularly, those belonging to the scheduled castes and scheduled tribes SIDBI could examine the possibility of setting up a separate venture capital funds for promoting such enterprises. States also could be advised to set up such venture capital funds in one of their existing corporations for promoting these categories.

- The aspect of the training for the bankers, particularly, those posted in new SSI branches has to be adequately focused at the highest level in the bank. The training programmers should attempt to prepare the managers for meeting the challenges involved in dealing with vital and demanding sector.

- Banks may be advised to improve their system of promotion and reward to calibrate the individual performance, not only in matters of deposits and house keeping, but also in respect of granting loans, particularly to SSIs. If required the annual confidential report forms and procedures should be modified to provide for the above. Banks should give due importance to loaning activities for assisting the performance of individual manager. While judging the performance of a manager / officer in case of specialised SSI branches, this should rank as the most important criteria. A balanced score card can be introduced in our banking system..

- Cases involving amount upto Rs. 25 lakhs should be dealt

with by the chief vigilance officer of the bank instead of referring it to the central vigilance commission.

- With a view to redress customers' grievances , time limits and system prevalent in banks should be made as transparent as possible and well publicized.

- The procedures for making complaint should be simple and as informal as possible .

- Each public sector bank should appoint an ombudsman who should be a person of high integrity and inclined to do public service. He can look after the credit related grievances of the borrowers which are outside the scope of banking ombudsman scheme. In addition to having only one ombudsman, banks can have a commissioner of grievances in each zone who should look after on a rough basis about 500 branches. Eminent retired citizens having adequate background of banking/industry/business/ may be appointed as commissioners. The governor, RBI may appoint each such ombudsman or commissioner on the recommendation of the bank concerned.

- It is recommended that the small scale companies who wish to have overseas presence should be allowed to invest upto US $ 20,000 based on a simple procedure and the bank should assist them for this purpose. This will help SSI units to increase exports and upgrade technology.

**S. P. Gupta Committee On Small Scale Industries**

S.P. Study Group on development of small enterprises was constituted in May 1999 main recommendation of the study group are:*

- Three-tier definition of tiny, small and medium sector .
- Tiny units:- Upto Rs. 10 lakhs to Rs. 1 crore investment in plant and machinery.
- SSI units:- Rs. 10 lakhs to Rs. 1 crore investment in plant and machinery
- Medium units:- Rs. 1 crore to Rs. 10 crore investment in plant and machinery.
- The investment ceiling should be received upwards every three years, to account for inflation the study group for the first time defined the investment ceiling for medium scale units.
- For infrastructure development the study group has recommended a corpus to Rs. 2,000 crores so that adequate infrastructure facilities are available to SSI sector.
- To reduce inspector visits, the study group has recommended a number of measures:
- Need for a single unified Act for small enterprises
- Replacement of inspection by self-certification

Ruddar Datt and K. P. M. Sundharam : Inidian Economy, Sultan Chand and Company,New Delhi, 2002. page 669

- Simplification of regularity laws etc.

- study group recommended fresh census for small scale industries.

To encourage technocrat entrepreneurs in high-tech industries like electronics, information, bio-technology, pharmaceuticals, an incubation infrastructure development fund with Rs. 1000 crore has been recommended by the study group for setting up of incubation centre in the tenth plan.

- Study group recommended to raise investment ceiling from Rs. 1 crore to Rs. 5 crore for plant and machinery for export oriented industries.

- It has made a number of recommendation for human resources development of SSI sector which includes in path like training, skills, upgradation new management practice etc.

- Measures for technology up-gradation and modernisation of SSI units.

- Setting up of technology bank for collecting and dissemination of information about technology about technology needed.

- A technology upgradation & modernisation funds of Rs. 5000 crore with an interest subsidy of five per cent.

- Accelerated depreciation on plant and machinery installed for

technology upgradation and modernisation

- Five percent custom duty on capital goods with import obligation and five per cent interest subsidy of recommended for technology modernisation.

- The study group recommended SAMADHAN scheme for one time settlement of dues of sick SSI units so that assets could be reutilized. Sick units should be required to make one time payment including interest not more than double of the credits/loan amount. This would provide an exit route to entrepreneurs of sick units.

- The study group with a view to encourage large units to make prompt payment to SSI units against the deliveries made by the SSI units as per order

- Denial of MODVAT credit to defaulter in respect of payment to SSI units for mare than 120 days delays.

- Amendment of income tax Act to disallow unpaid SSI bills from business expenditure.

- To provide higher marketing support to the SSI the study group has recommended

- Statutory backing and continuation of the price reference (up to 15 per cent to SSI products) under government Purchase Performance, Programme and Purchase Preferences Scheme made by gov-

ernment departments

- Upto 33 per cent of government purchase may be done from SSI sector on the line of USA

- Timely release of institutional finance for exports order of SSI units.

The recommendation made by the SP study group are if implemented in planned manner. It will provide maximum possible benefits to SSI sector.

## Government Policies

The evolution of the policy for development if SSI in India during the past four decades has its roots in the ideological premises of the pre-independence era.The village self-sufficiency in the thought of Gandhiji A significant features of the Indian economy since independence is the rapid growth of modern small scale sector. The National Planning Committee, set up in 1938, while deliberating upon the approach to industrialization recommended a three tier concept of cottage, small scale and large scale industries.This view was reinforced by the success of Japan in the field of cottage and small scale industries. The development of SSI become a " Symbol of nationalism" for India and emerged as major objectives of Industrial policy pursued in the post-independence era.

The Industrial policy resolution of 1948 and 1956, the SSI has been given a special role for creating additional employment opportunities with low capital investment. Since independence, India has several industries policies to her credit. So much that **Lowerance.Avcit** tempted to say that, if India has as much industry as it has industrial policy, it would be a far well to do nation."*

The achievement in the small-scale sector are primarily due to the active policy support and comprehensive programme of assistance launched by the Government of India . The basic approach towards development of SSIs as out lined in the policies below and plans can be summarised as :-

- To create immediate employment opportunities on a massive scale at a relatives small cost ;

- To meet a substantial parts of the increased demand for consumer goods and simple produces goods.

- To facilitate the mobilization of resources of capital and which may otherwise remain unitized in rural areas.

- To help in raising income and standard of living of a large number of artisan, craftsman and entrepreneurs.

- To make small industries export-oriented and help export promotion.

P.N.Dhar: Some Observation on Small Scale Enterprise Development, Allied Publishers, New Delhi, 1979, page 178-79

- To remove regional disparities through deliberate policies .

Government has launched the following policies for the growth of SSIs :-

(a) Industrial Policy

(b) Exim Policy

The term Industrial Policy " refers to government policy towards industries- their establishment, functioning growth and management". The policy will indicate the respective areas of the large, medium and small scale sector. The concept of " Industrial Policy is comprehensive and it covers all those procedures, principles, policies, rules and regulation which control the industrial undertakings of a country and shape the pattern of industrialization. Naturally, the industrial development of a country will be shaped, guided and fostered regulated and controlled by its industrial policy.

Before independence there is no industrial policy statement, because British Government does not want to boast the Indian Industry. Although the British Government give protection to Indian industry. After second world war economist feel the need of new industrial policy. As a result in 1944 government established 'Planning and Reconstruction Department'. Its president is Sir A. Dala, who give a description paper on industrial policy in 1945. But it has not been in practice. Industrial policy is probably the most important document which indicate the rela-

tionship between Government and bussiness. The document is helpful to planners and the administrator in the government, is as much as it gives clear guidance for promoting and regulating industries. It is equally helpful to industrialist and other for deciding areas and priorities of the investment.

The industrial policy has no legal sanction and as such as its violation can not be challenged in a court as is possible in the case of Fundamental Rights guaranteed by the constitution. However, it has certain broad guidelines for government administrative action and deals with only the qualitative aspects thereof. There are no physical target to be fulfilled, no time span nonfinancial commitment as in the case of an industrial plan. There is only a moral commitment on the part of the government to implement the policy in word and spirit.

The central government issued industrial policy statement from time to time as referred to earlier, in order to give direction to the pattern of industrial development and to attain social, economic and political objectives. These direction reflect upon the role of public, private, joint and cooperative sector in the development of large, medium and small scale industries. After independence the government has made many industrial policy time to time for the industrial growth. Following are the policy statement made since independence.

**Industrial Policy 1948**

The first industrial policy was declared, on dated 6th April,1948, emphasized the role of the small-scale industries in the national economy in offering scope for the rehabilitation of displaced person. It was recommended in the government conference that the small scale industries were particularly suited for the better utilization of local resources and for the achievement of local self-sufficiency in respect of certain types essential consumer goods like food cloths and agricultural implements. In accordance with recommendation the government also agreed to investigate how far in what manner those industries could be coordinate and integrated with large scale industries.

**Industrial Policy 1956**

The new industrial policy had passed in 1956 after the 8 years gap. During this 8 years gap many important changes and development in India witnessed. The industrial policy, 1956, stressed the role of small scale industries provide immediate large scale employment. They offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. The aim of the Industrial Policy was to integrate the development of small scale units with large scale industries. While any industries will bring about some employment and income to the locality not all types of industries same forward and backward linkages or other radiating effects such as well ac-

celerated economic activities in the surrounding areas. It is the small and medium type of business which have a larger potential for stimulating secondary economic activities in the area. So the industrial policy recommended the development of ancilliary industries in the area where large projects were set up. While licensing large enterprises whether in the public or private sector these industries were required to spell out the small scale units either by value or by percentage.

Industrial policy 1956 emphasized the role of small scale industries in the economy of the country and assigned the following tasks to them :-

- Large employment opportunities with low capital investment.

- To domestic demand for consumer goods and even part of capital goods.

- Mobilization of capital and entrepreneurial skills in rural areas.

- Assistance to entrepreneurs in getting employment/income/reasonable standard of living.

- Make available foreign markets for products by taking measures to make them export oriented.

- Remove disparities in regional industrial development

through development of small scale industries providing income/employment to people in this areas.

- To foster greater relationship between large scale industries and small scale industries.

**Industrial Policy 1977**

After 20 years, the government has given new industrial policy 1977. This industrial policy, despite some desirable elements, has resulted in certain distortion viz. "Unemployment has increased, rural urban disparities have widened and the rate of real investment has stagnated. The growth of industrial out put has been no more than 3 to 4 per cent per annum on the average. The incidence of industrial sickness has become widespread and some of the major industries are worst affected".

The main elements of the new policy were :

- Development of small-scale-sector the main thrust of the policy-The Janata Policy statement categorically mentioned : " The emphasis industrial policy so far has been mainly on large industries, neglected cottage industries completely and relating small industries to a minor role.

- The main thrust of new industrial policy will be on effective promotion of cottage and small industries widely dispersed in rural areas and small towns. It is the policy of the government that whatever can

be produced by small and cottage industries must only be so produced. The small sector was classified into three categories :

(a) Cottage and households industries which provide self-employment on a wide scale .

(b) Tiny sector incorporating investment in the industrial units in machinery and equipment up to Rs. 1 lakh.

(c) Small-Scale Industries comprising industrial units with an investment up to Rs. 10 lakhs and in case of ancillaries with an investment in fixed capital up to Rs. 15 Lakhs.

As against 180 items in the list of reservation operating earlier the government expanded it further to 807 items by May 1978.

The government has also set "District Industries Centre" to serve as the focal point of development for the small scale and cottage industries.

In the programme of development of village industries the government intended to give special place to khadi with a view to improve the productivity and coinage of khadi spinners and weavers.

The main aim of the Industrial policy 1977 was to encourage small scale and cottage industries as against the large scale industries dominated by big houses and multinationals. By this encouragement, it lead to extension of employment and reduction in concentration of economic power.

Although this industrial policy failed to impose a ban on multinational or Indian big bussiness to produce ordinary items like bread, biscuits, toffees footwear leather products etc. which should have been legitimately reserved for the small sector.

**Industrial Policy 1980**

Industrial policy 1980 endorsed the 1956 industrial policy and intended to follow a programmatic approach. The industrial policy resolution {1956} started " the state has been following a policy of supporting cottage and village and small scale Industries by stricting the volumes of production in the large scale sector by differential taxation or by direct subsidies industrial policy {1980} suggested the following measures .

Redefining of small units in order to boost the development of small scale industries. Government to increase the investment in case of tiny units from Rs. 1 Lakhs to Rs. 2 Lakhs.

To increase the limit of investment in case of small scale units from Rs. 10 lakhs to 20 lakhs.

To increase the limit of investment in the case of ancillaries from 15 lakhs to 25 lakhs.

The 1980 industrial policy statement emphasized the need to promote suitable industries in the rural areas to generate higher employment and higher per capital income for the villagers in the country without disturbing the ecological balance. Handlooms, Handicrafts, and

Khadi and other village industries would receives greater attention to achieve faster rate of growth in the village.

**Industrial Policy 1991**

The small scale sector emerged as dynamic and vibrant sector of the economy during the eighties. The primary objectives of the small scale industrial policy in the nineties was to import more vitality and growth impetus to the sector to enable it to contributed its might fully to the economy particularly in the terms of growth of output , employment and exports. For the first time government came out with the separate small scale industrial policy. The government decided that the artificial division between small and large scale industry which were conflicting should be cleared by resort to economic federalism by a policy of integrated industrial development of nucleus plant in each district identified as industrially backward to generate as many accessories and small scale and cottage units as possible. The policy statement 1991 also recognized the growth of service sector units. The statement recognized all industry related services and bussiness enterprises irrespective of their location as small scale industries and their investment ceilings would correspond to those of tiny units/enterprises.

The S.P.Gupta study group on development of Small Enterprises suggested a three tier definition-tiny, small scale and medium scale industries. It also recommended the enactment of a comprehensive limited partnership act governing the small scale industries which could

enable entry to risk capital into the small scale sector. Taking into consideration the suggestion of the study group and the recommendations of the Group of Union Ministers headed by Home Minister L.K. Advani, the government announced it policy towards the small sector on 6th August 1991.

The main features of the policy are:

- Equity participation up to 24 per cent by other industrial undertakings including foreign companies.

- Legislation to limit financial liability of new and non-active partners/entrepreneurs to the capital invested.

- Hike in investment limit for tiny sector up from Rs. 2 Lakhs to Rs. 5 Lakhs (At present Rs. 2.5 million)

- Services sector to be recognised as tiny sector.

- Support from national equity fund for project upto Rs. 10 Lakhs.

- Single window loans to cover projects upto Rs. 20 Lakhs banks too be involved.

- Relaxation of certain provisions of labour law.

- Subcontracting exchanges to be set up by industry asso-ciations.

- Easier access to institutional finance.

- Factoring services through SIDBI to overcome the problem of delayed payment. Also, legislation to ensure payment of bills.

- Women enterprises redefined.

- Package for handloom and handicrafts sector.

- Export development centre in SIDO

- Marketing of mass consumptions items by national small industries corporation under common brand name.

- For ancillary units and Export oriented units an investment limit of Rs. 7.5 million (now Rs. 10 Million.)

**New Industrial Policy 2000**

An industrial undertaking is defined as a small scale unit if the investment in fixed assets in plant and machinery does not exceed Rs. 10 million. The small scale units can get registered with the directorate of industries/District Industries centre in the State government concerned. Such units can manufacture any item including those notified as exclusively reserved for manufacture in the small scale sector. Small scale units are also free from locational restriction. However a small scale unit is not permitted more than 24 per cent . Equity in its paid-up capital from any industrial undertaking either foreign or domestic. The restrictions of equity participating is not applicable in the case of non industrial

undertakings.

Manufacture of items reserved for the small scale sector can also be taken up by non-small scale units, if they apply for and obtain an industrial licence . In such cases, it is mandatory for the non-small scale units to undertake an export obligation of 50 per cent . In addition, if the equity holding from another company (including foreign equity) exceed 24 per cent, even if the investment in plant and machinery in the unit does not exceed Rs. 10 million the unit loses its small scale status. An IEM is required to be filed in such a case for delicenced industries, and an industrial licence is to be obtained in the case of items of manufacture covered under compulsory licensing.

A small scale units manufacturing small scale reserved item on exceeding the small scale investment ceiling in plant and machinery by virtue of natural growth, needs to apply for and obtain a carry on bussiness (COB) licence. No export obligation is fixed on the capacity for which the COB licence is granted. However, if the unit expands its capacity for the small scale reserved items further, it needs to apply for and obtain a separate industrial licence.

The process of economic reform based on the principal of liberalisation globalization and privatization has provided several opportunities for growth to the small scale industry (SSI) sector. As a result of this ongoing process, the SSI sector has greatly improved its performance in the new millennium and the growth rate registered

by it is higher then the over all industrial sector.

By the end of March 2000,the SSI sector accounted for nearly 40 per cent of gross value of output in the manufacturing sector and 35 per cent of export from the country. This is an indication that this sector has registered steady growth in generation of employment opportunities as well. Encouraged by this growth, the government of India decided to implement a set of measures to the further strengthen the sector. The measures have been formulated by group of ministers constituted by the cabinet and headed by Mr. L.K.Advani in June 2000.

They in turn are based on the findings and recommendation of the S.P. Gupta study team report constituted by the planning commission. The measure or in the form of a comprehensive policy package for the SSI and Tiny sector , which was announced by Prime Minister Mr. Atal Bihari Vajpayee.

**Policy Support**

- Investment for the Tiny sector will continue to be Rs. 25 Lakhs

- The investment limit for the SSI sector will continue to be Rs. 1 crore.

- The ministry of SSI will bring out a specific list of hitech export oriented industries which would require the invest-

ment limit to be raised upto Rs. 5 crores to admit suitable technology upgradation and to enable them to maintain their competitively edge.

- The Limit Partnership Act will be drafted quickly and get enacted. Attempt will be made to bring the bill before the next session of the parliament .

**Fiscal Support**

To improve competitiveness of Small Scale Sector, the exemption of excise duty limit will be raised from Rs. 50 lakhs to Rs, 1 crore .

**Credit Support**

- The composite loans limit will be raised from Rs. 10 lakhs to Rs. 25 Lakhs.

- The Small Scale Service and business( industry related) Enterprises (SSSBEs) with a maximum investment of Rs. 10 lakhs will qualify for priority pending

- The eligibility limit for coverage under the recently launched (August 2000) Credit Guarantee Scheme has been revised to Rs, 25 lakhs from the present limit of Rs. 10 lakhs.

- The department of the economic affairs will appoint a task force to suggest revitalization instructing of the state final

corporation .

- The Nayak committee's recommendation regarding proportional of 20 per cent of the projected turn over as working capital is being recommended to the financial institution and banks.

**Infrastructural Support**

- The Integrated Infrastructural Development (IID) Scheme will progressively cover all areas in the country with 50 per cent reservation for rural areas.

- Regarding upgrading the industrial estates, which are languishing, SSI ministry will draw up a detailed scheme for the consideration of the Planning Commission .

- A plan scheme for cluster development will be drawn up.

- The funds available under the non lapsable full for the north -east will be made use of for industrial infrastructural development, setting up of incubation centres, for cluster development and for setting of IIDs in the north east including Sikkim.

**Technological Support and Quality Improvement**

- Capital subsidy of 12 per cent for investment in technology in select sector is given and interministerial committee of

expert will be set up to define the scope of technology upgradation and sectorial priorities.

- To encourage total quality management the scheme of granting Rs. 75,000/- to each unit for opting ISO-9000 certification will continue next six years i.e. till the end of 10th plan .

- Setting up incubation centre in sunrise industries will be supported .

- The TBSE set up the SIDBI will be strengthened so that its functions effectively as a technology bank. It will be properly networked which NCIC, SIDO, (SENET programme) and APCTT.

- SIDO, SIDBI and NSIC will jointly prepare compendium of available technologist for the R&D institution in India and abroad and circulate among the industry association for the dissemination of the latest technology related information.

- Commercial banks are being requested to develop scheme to encourage investment in technology upgradation and harmonize. The same with SIDBI one time capital grant of 50 per cent will be given to small scale association who wish to develop and operate to testing laboratories provided they are of international standard .

**Marketing Support**

- SIDO will have a market Development assistance (MDA) programme, similar to one obtaining in the ministry of commerce. It will be a plan scheme .

- The Vendor Development Programme, Buyer-Seller meets and exhibitions will take place more often and in dispersed location.

**Streamlining Inspection/Rules and Regulations**

- To minimize harassment to small sector scale, a group will be set up to recommend within 3 months, means of streamlining inspection. This will include repeal of laws and regulations applicable to the sector that have since become redundant.

Self-certification will be progressively encouraged in lieu of inspection.

**Entrepreneurship Development**

Capacity building in the SSI sector both for entrepreneurs as well as workers will be given top priority. SSI Ministry and Labour Ministry will work out the strategy jointly.

**Facilitating Prompt Payment**

The Reserve Bank of India is being requested to appoint a Task Force to go into the question of how to strengthen and popularize factoring services, without recourse to the SSI suppliers. The Task Force shall give its report within six months of its constitution.

RBI is being requested to take up with the banks the question of suballocating overall limits to the large borrowers specifically for meeting the payment obligations in respect of purchases from the SSIs, either on case basis or on bills basis.

**Rehabilitation of Sick units**

RBI is being requested to draw up revised guidelines for the rehabilitation of currently sick but potentially viable SSI units. Such guidelines should be detailed transparent and non-discretionary.

**Promoting Rural Industries**

To support the Handlooms Sector "Deendayal Hathkarga Protsahan Yojna" has been announced. The scheme has a total financial implication of /Rs. 447 crores and will provide comprehensive financial and infrastructural support to weavers.

The Government is working out new comprehensive pack-

age to strengthen Khadi and Village Industries that will further upgrade the skills of Khadi workers.

### Improving Data Base

A fresh Census of Small Scale Industries will be conducted covering inter-alia, the incidence of sickness and its causes.

## Tiny Sector

### Marketing Support

- The investment limit for the tiny sector will continue to be Rs. 25 lakhs.

- Under the Prime Minister's Rozgar Yojna, which finances settingup of micro enterprises and generates employment for the educated unemployed, the family income eligibility limit of Rs. 24,000 is revised to Rs. 40,000 per annum.

### Credit Support

- The Nayak Committee's recommendations regarding provision of 20 percent of the projected turnover as working capital is being recommended to the financial institutions and banks. In respect of Tiny units also, 20 percent of the projected annual turnover would qualify for working capital loan.

- The National Small Industries Corporation will con-

tinue to give composite loans upto Rs. 25 lakhs to the tiny sector and continue to the tiny sector and continue to charge one percent concessional interest rate.

- SIDBI will continue to give concessional rate of refinance to the tiny sector which is now at 10.5 percent as compared to 12 percent for the SSI sector. This policy will continue.

- In the National Equity Fund Scheme, the project cost limit will be raised from Rs. 25 lakhs to Rs. 50 lakhs. The soft loan limit will be retained at 25 percent of the project cost subject to a maximum of Rs. 10 lakhs per project. Assistance under the NEF will be provided at a service charge of 5 percent per annum. Under the National Equity Fund Scheme, 30 percent of the investment will be earmarked for the tiny sector.

**Infrastructure Support**

- The Integrated Infrastructure Development (IID) Scheme will progressively cover all areas in the country with 50 percent reservation for rural areas. Under this Scheme, 50 percent of the plots will be earmarked for the tiny sector (as against 40 percent done earlier)

- Under the national programme for the rural industrialization cluster development is being taken up by KBIC, SIDO,SIDBI and NABARD. The major beneficiaries of cluster

development programme will be tiny sector unit. The sponsoring organisation for each cluster will be provide for design development, capacity building, Technology Intervention and consortium marketing. A cluster development fund will be created under the plan.

**Technological Support**

Under the scheme of capital subsidy of 12% for investment technology upgradation in select sector. Preference will be given to a tiny sector.

**Marketing Support**

- Preference will be given to the tiny sector while organizing Buyer-seller meets, vendor development programmes and exhibition.

The policy for SSI and tiny sector have been formulated with the view to keep up the tempo for growth not only for the industrial development of the nation but also to help generate employment opportunists. The increasing number of SSIs seeking ISO 9000 certification is heartening and the governments decision to grant Rs. 75,000 to each such unit will further strengthen the process.

Apart from this, the government emphasis on the development of khadi and village industries to achieve a balanced and

integrated development is appreciable. This is inevitable as this segment foster skills, promotes entrepreneurship at micro level and is integral to our growth process. The government has been quick to realize that khadi is not only environment friendly providing job to millions, but also can be marketed globally. To ensure this the government has made adequate provision for upgradation of the skills of the khadi workers

**Export Import Policy**

In a developing countries like India export is one of the most important economic instrument for economic growth since independence government has taken many steps to promote export trade. The Export-Import policy being a vital part of trade policy ,the Government felt that the basic low governing foreign trade must serve as an instrument to create an environment so as to encourage exports, facilitate imports and render export activity more profitable.The main objective of export policy is to facilitate technological upgradation and modernization in production and to help achieve healthy diversification of exports. During the first plan period the Government has not made any policy for export promotion during the second plan period ,it was felt that export earnings could not be significantly increased unless industrialization gathered momentum.This fact was given expression in second plan in the following word 'India's export earnings are derived from a few commodities. Three of them namely, tea,

jute and cotton textiles, account for nearly one-half of the limit. These major exports one meeting increasing competition abroad. This the scope for any substantial increase in exports in the short run while every effort has to be made to promote exports of new items and to develop and diversity the markets for country's major exports, it has to be recognised that it is only after industrialization has proceeded some way that increased production at home will be reflected in large export carving ."*

In 1970, the government formulated a positive policy named "Export Policy Resolution, 1970 stressing the need for restricting domestic consumption of certain items. In this resolution there in no provision for any particular industry, it stressed on the export oriented industries. It in again revised in 1977, when the Janata Government cause into power .The New Export Policy Resolution guide the export promotion efforts ,for this Government had set different committee's to boost the growth of export. Government had set up Alexander committee in January 1978 .The committee has recommended three years export-import policy Another committee named Abid Hussain Committee has suggested for formulating three years import-export policy to help the Indian exports in planning long term export strategies

For the first time Government has announced a three year EXIM policy. The basic aim of the policy was to facilitate production through cases and quickies access to imported inputs, im-

port continuity and stability of EXIM policy, strenghten the export production base, facilities technological upgradation and effect all possible saving in imports. The main features of the exim policy (1985) were.

- Import of 67 items of raw material and components was transferred to limited permissible list from OGL and automatic permissible list.

- A two tier policy was adopted for import.

- "The import-export pass book scheme" was introduced with effect from October 1985

- As many as 201 items of industrial machinery was placed on OGL under the import policy

- Import of as many as 53 items was decanalised .

The 1985 import policy was broadly welcomed by various chambers of commerce and industry, business and industrial houses and leasing industrialists. The policy intended to pursue technological upgradation through imports. Its welcome features was the fillip it gave to the small-scale and cottage industries as well as to agricultural exports, all this would help to maximize utilization of our manpower and agricultural resources.

The major draw back of the policy is that measures suggested do not match with the professed aims. Government in the

name of modernisation is helping big business to import labours saving machinery .Economic and political weekly exposing double talk of the Government mention ."The governments pretensions of encouraging the handloom sector by controlling the textile industries are exposed by the fact that latest in the labour saving textiles machinery, air jet and water jet looms,have been placed under open General licence on the plea of modernisation."*

**EXIM POLICY (April 1988-March 1991)**

The policy was announced by the government of India as a part of an overall strategy with primary focus on export promotion. The objective of this policy are:-

- To promote efficient import subsistence and self reliance
- To give a fresh impetus to export promotion by improving the quality of incentives and their administration
- To simplify and rationalise policy and procedure
- 745 items have been placed on open general licence including 209 items of life saving equipments, 1087 items of drugs and 99 items of machinery.

**Exim Policy (1992-1997)**

Government announced the new export-import(exim) policy, as a part of the ongoing economic liberalisation, this Exim policy came into force from 1st April 1992 and shall be in force for a period of 5 years, that is upto 31st march 1997.The objective of the policy are :-

- To establish the frame work for globalisation of India's foreign trade.
- To promote the productivity,modernisation and competitiveness of Indian industry and there by enhance its support capabilities
- Encourage the attainment of high and internationally accepted standards of quality.
- To foster the country's Research and Development (R&D) and technological capabilities
- Principal objective of the policy in to accelerate the country's transition to a globally-oriented vibrant economy to device maximum benefits from expanding global market opportunities.
- To enhance the technological strength of Indian industry.

The main features of the policy are.

1. 542 restricted items liberalised for imports

2. Special incentives for agro sector, hitech export and small scale industries products

3. Payment of duty under EPCG scheme reduced to 10 percent

4. Threshold limit under zero duty EPCG scheme reduced to Rs. 5 crore for agro,SSI and allied sector

5. Special license facility extended to domestic goods suppliers.

One of the negative aspect of EXIM policy 1997-2002 in the removal of large number of items from the restrictive list may result in inundation of the domestic market by imports. The policy fails to eliminate the persisting qualitative restriction on a wide range of imports. Incentives given by them for agro-industry and SSI will not increase significantly.

**Exim Policy(1997-2002)**

Union commerce and industry minister Mr.Murasoli Maran announced the Exim policy for the 5 years period (2002-07) on March 31,2002.

The main thrust of the policy in to push India's export aggressively by undertaking several measures aimed at augmenting export of farm goods the small scale sector, textiles gems and jewellary,electronic hardware etc. Measures Announced in the Exim policy for SSI are as follows :-

- Quantitative restrictions (QRs.) removed from 714 tariff lines including 58 reserved for SSI sector

- Exim policy has removed all quantitative restrictions on all agricultural products all except a few sensitive items like jute and onions

- An amount of Rs. 5 crore under market access initiative has been earmarked for promoting cottage sector export coming under KVIC. The units under handicrafts can also access funds under market access initiative.

- Under export promotion capital goods (EPCG) scheme, these units will not be required to maintain an average level of exports, while calculating export obligation

- Cottage and Handicraft sector shall be entitled to the benefit of Export House status on achieving lower average export performance of Rs. 5 crore as against Rs. 15 crores for others.

- The units in handicraft sector shall entitled to duty

free imports of an enlarged list of items up to 3 percent.

- To encourage the further development of centres of economic and export excellence such as hosiery Tripus for woollen blanket in Panipat, woollen knitwear in Ludhiana followings benefit shall be available to small-scale sector.

- common service provides in these areas shall be entitled to the facility of Export Promotion Capital Goods (EPCG) Scheme.

- Recognised associations of these area shall be able to access funds under market access intentives for technological services and marketing abroad.

- Entitlement for Export House status at Rs. 5 crore instead of Rs. 15 crores for others.

- To encourage relocation of industries in India, plant and machineries would be permitted to be imported without a licence, where the depreciated value of such located plan exceeds Rs. 50 crores. Another positive feature of the policy is have "Focus Africa" so that Indian export to African country can be developed.

**Reservation Policy**

Since independence the SSI has been extended level support measure through various policy instruments one of the cana-

lize support measures in the policy of product Reservation under which selected products an identified for exclusive production in the SSI.

The Reservation Programme began in the Second Plan initially in the handloom, in which was reserved for dhoties and sarees, it was later extended to the small scale sector in 1967 with 8 items which grew to 126 by 1977-78 and the total now stands at about 866. A salient feature of this reservation policy introduced in 1967 was that it had no legal backing until 1984. It was only in 1984 that the government plugged this legal inadequacy and put this policy on a statutory footing in the Industrial Development Reservation Act. Initially only 47 item was reserved in 1967. But the number has grown considerably since then the government has conducted two small scale industries census so far : one in 1972 and the other in 1987-88. The Share of production in the reserved categories was 25 percent in total small scale industry production in 1972 and 28 percent in 1997-98. This small increase in the share was surprising. Average level of utilization was over 50 per cent in units producing unreserved items. It was also found in 1987-88 that a large number. If reserved items were not produced at all in any unit.

The second census of small scale industries provide evidence of the misplaced importance given to the policy of reservation. Out of a total of 200 products leading in value of output

produced by the small scale sector, it was found that reserved products accounted only for 21 percent. The rationale behind the policy of reserving exclusively certain products for manufacture by the small sector in that this is the surest way to protect small companies against competition from large companies.

But the Abid Hussain Committee urged the abolition of small scale industry reservations. In reality reservation may have played only a limited role in promoting small scale industries while restricting the entry of large companies into these industries. The existence of reservation policy has also provided as illusion to the government and the country at large that adequate protects promotion wast being provided to small scale industries. The issue of investment limit is also of greater relevance for the items that are reserved for small scale industries. In the case of items that are not reserved, small scale industries are free to grow. The only incentive not to grow in the loss of various facilities and incentives that the units may have availed of as small scale units. In the case of industrial units manufacturing reserved items, these are not permitted to cross the small scale investment limits and are therefore not able to grow.

The policy of reservation prevents the successful units from the growing. The reservation in fundamentally flawed and self-contradictory. The policy of reservation has crippled the growth of several industrial sector, restricted exports and has done little for

the promotion of small scale industry.

After the change in trade policy instituted in 1991, most items are freely importable. In 1996, 550 items on the list of reserved products have been freely importable this means that, whereas foreign companies which produce these products can sell such items freely in India, large domestic companies are not free to manufacture them. Some protection however is provided by the custom tariff. The export-import policy for year 2001-2002 has withdraw the quantitative restrictions (QR) on SQ items those were reserved for the small scale industries. Exim policy has also announced liberalised rules for items like silk and leather products these include sanitary and pottery products, tiles and shoes etc. the policy of quantitative restriction in respect of reserved items has to some extents amounts to negate the reservation policy.

**Impact of SSI Reservation on Exports**

An important feature of industrialisation of the fast growing East Asian countries during the last three decades or so has been high growth in manufactured export accompanies by high growth in manufactured employment. The Indian experiences has been different in India record of growth in manufacturing employment has been poor and so has our export growth

The share of exports in Indian GOP has barely leaohed 10 percent now Although this is a significant improvement over the 3 percent share 1970 and 5 percent in 1980, the Indian economy ravenous the least open among magor countries in Asia, Including china. The volume of Indian exports in 1970 was the third highest among the 10 Asian countries listed in Table- 7.1 Today it is the second 10 west while chinese exports grew from about US $ 18 billion in 1980 to about US $ 120 billion in 1994. Indian exports during that period grew from US $ 8.6 billion to $ 25 billion. The compostion of exports of industrialising countries is largely labour intensive one of the reasons behind slow employment grwoth in India is clearly related to the slow growth in exports.

Table 4.1

***Progressive Reservation of Items for Exclusive Manufacturing in Small Sector***

| Date of Notification reserved reseaerved | No. of items dereserved | No. of items no. of items | Cumulutive net |
|---|---|---|---|
| **Phases I** | | | |
| 1 April 1967 | 47 | | 47 |
| 19 Feb 1970 | 8 | | 55 |
| 29 Feb 1971 | 73 | | 128 |
| 11 Nov. 1971 | | 4 | 124 |
| 26 Feb 1974 | 53 | | 177 |
| 5 June 1976 | 3 | | 180 |
| 26 April 1978 | 324 | | 504 |
| **Phaes II** | | | |
| 26 April 1978 | 807 | | 807 |
| 30 Dec. 1978 | | 1 | 806 |
| 12 May. 1980 | 27 | | 833 |
| 19 Feb 1981 | 1 | 1 | 833 |
| 8 Aug 1981 | 9 | | 842 |
| 23 Dec 1981 | 2 | 13 | 823 |
| 14 Oct 1982 | | 3 | 828 |
| 19 Oct 1982 | 9 | | 837 |
| 3 Sep. 1983 | 35 | | 872 |
| 18 Oct. 1984 | 1 | 1 | 872 |
| 30 May 1984 | 7 | 14 | 869 |
| 30 Oct. 1986 | 1 | 7 | 863 |
| 13 Feb. 1987 | | 13 | 850 |
| 20 July, 1987 | | 3 | 847 |
| 18 Mar 1988 | | 1 | 846 |
| 3 Mar. 1989 | 3 | 14 | 835 |
| 31 July 1989 | 1 | | 836 |

Source : Small Scale Industry Policy in India : Rakesh Mohan

# CHAPTER V

## INSTITUTIONAL SUPPORT

Small Industries Development Organisation

National Small Industries Corporation

State Industrial Development Corporation

Small Industries Services Institutes

Technical Consultancy Organisation

District Industries Centre

Industrial Estates

# Institutional Support

Starting a business or industrial unit say enterprise in short requires various resources and facilities. Small scale enterprises, given their small resources to start and run an enterprise because it facilities the entrepreneur to procure land, labour, material, machine and so on from different parties to run his/her enterprise. In order to start any economic activity, a minimum level of prior built-up of infrastructural facilities is needed.* Financial assistance and concessions cannot, in any case, adequately compensate for the deficiencies of infrastructure such as transport and communication. This is one of the reasons why industries have not been developing in backward areas in spite of financial assistance an concessions given by the Governments to the entrepreneurs to establish industries in backward areas. Creation of infrastructural facilities involves huge funds which the small entrepreneurs do lack. In view of this, various Central and State Government institutions have come forward to help small entrepreneurs in this regard by providing them various kinds of support and facilities. Availability of the institutional support helps make the economic environment more conducive to business or

T.S.Papola and R.T.Tiwari : Impact of Concessional Finance on Industrial Development of Backward Areas, 1981 page 35

industry. There are two major sources of information on small scale industries (SSI) in India- the small scale industry organisation (SIDO) and central statistical organisation (CSO). Although representing a substantial share was not covered by SIDO. Data provided suffer from sampling problems and one highly aggregated, on the other, CSO provide better coverage and in less aggregated, but its information is scattered among different surveys, India's SSI is divided into seven industry groups administratively, Handicrafts, Handlooms, Khadi, village and cottage industries, Coir, Sericulture, Powerlooms, small scale industries which are residual.

The first five sub sector are collectively called the "Traditional Sector". Whereas the last two powerlooms and residual small scale industries are known as the " modern" sector. Each of the sub sector has its own supervisory body or board, such as khadi and village industries commissioner, development commission for Handicraft board, central silk board, coir board and SIDO. The residual small scale industries sub sector in overseen by SIDO.

## Small Industries Development Organisation

Small industries development organisation is a subordinate office of the department of SSI & ARI it is on apex body and nodal agency for formulating coordinating and monitoring the poli-

cies and programmes for promotion and development of small - scale industries Development commissioner is the head of the SIDO. He is assisted by various directors and advisers is evolving and implementing various programs of training and management consultancy, industrial investigation possibilities for development of different types of small scale industries development of industrial estates etc. The SIDO has under its three wings, viz. The small industries service Industries (SISI) Regional testing centres . and product and processes development centre each institute has technical office, work shop and testing facilities relevant to the requirement of small scale units. The SISI provides technical information and arrange training programmes. The SIDO offer consultancy service in the field of techno- managerial marketing quality control production and conducts in plant studies special training programmes and seminars. The SISI in all major state of the country is list and assist small units in obtaining sub contracts from medium and large scale units for {arts, accessories, sub assemblies etc. manufactured by the ancillary units the institute is also commissioned to give the report on the working of the small industries who are potentially sick or have become sick on the references made by the bank and financial institutions industries the regional testing centres offers facilities to conduct testing of quality of raw materials component and end products Quality testing is very important

but small scale units generally can not effort to install costly machine for the purpose of testing alone the regional testing centre at Mumbai, Calcutta, New Delhi and Madras undertake through quality checks issuing test certificate and advising the units is improving the quality of their products. The main function of the SIDO are :

SIDO serves as nodal agency to support the small scale industries in export promotion. And export promotion centre would be setup in SIDO to serve the small scale industries through its network of field officers to further augment export activities of this sector.

- Technology Development Cell (TDC) in the SIDO provides technology inputs to improve productivity and competitiveness of the products of the small scale sector .

- 27 Small Industries Service Institute (SISI) have been set up by SIDO at various place for discriminating market information. 38 exchange centre have also been set up a within some SISI's to help units in securing sub contract jobs.

- The SIDO functions as a model agency for formulating coordinating and monitoring policies and programmes for promotions and development of small scale industries in the country .

- It also promotes ancillary units to the public centre enterprises besides many large industrial houses actively pursue the policies of promoting ancillary units for their purchase of store. SSI units can take advantage of this facility and secure a regular market for their products.

- It helps SSI, to maintain a proper liaison with the related central ministries, planning commission, state Government and financial institutions. SIDO provides information on the scope for development of various industries. This information help the small entrepreneur and potential investor to make selection of the product.

**National Small Industries Corporation (NSIC)**

The national small industries corporation was setup in 1955 to assist the growth of small industries in the centre through commercial scheme for which purpose it was made in to a public sector undertaking . NSIC supply machinery both indigenous and imported, on a hire purchase basis applicants have to make and earnest money deposit, (5 to 10 per.) At the time of application and repay the rest over a period of seven year, changed at an interest rate of 7 percent Upto 1998 the NSIC has supplied machinery worth Rs. 95.98 crores to 14,116 units.

The corporation had four subsidiary corporations at Delhi , Mumbai , Calcutta and Chennai. Since 1961 all the subsidiary

corporation has been merged with the parent corporations and its work is looked after by a separate Delhi cell set up in it.

**The major function of the NSIC are :**

- It supply the machine local/imported to SSI, on lease or hire-purchase. The machinery is transferred to the hirer on last payment of instalment.

- It also provides raw materials and other goods unindigenously or from outside by import. Adequacy and equitable distribution of indigenous and imported raw material would be ensured to the small scale sector, based on capacity needs the units would given priority.

- It provides assistance in marketing products from the small industries sector within the country.

- It also assist export of small industries products and developing export worthiness of small enterprises. The corporation has been making efforts in promoting the concept of small scale industries in developing countries particularly in Africa. It has set up a large number of turnkey projects in countries such as Kenya, Tanzania, Nigeria, Botzwana, Bangladesh, Srilanka and Ghana

- With a view to providing proper guidelines to small scale units and access to latest information relating to technol-

ogy upgradation/dissemination, NSIC has set up technology dissemination centre from where interested units can obtain latest information through on line connection network of computers.

- The equipment learning and modernisation scheme of the corporation provides for 100 percent finances single window service for indigenous as well as imported machinery and tax rebates on full year rental.

- To supplement the activities of state small industries corporation and district industries services institute, the NSIC has opened its offices in the some of the states in which the (NSIC) corporation has been hitherto under represented in the central reason , offices has been opened in Bhopal and Raipur in Madhya Pradesh for developmental executive and six field inspector have been posted in the backward areas of western division to save as " contract Point and to work enclose corporations with DIC, another development agencies in the areas.

- It has created a proper "industrial" atmosphere and has infused confidence in small entrepreneurs to prepare schemes for the manufactures of products or identify the balancing equipment for purpose of modernisation and or diversification. For year through its dynamic approach and the packages of assistance it has been significantly contributing to the development of entrepreneurs building up of strong industrial base.

Spreading of technical culture, promoting balanced regional growth, development of rural and backward areas etc. as well as in employment generation, in all parts of the country.

**State Industrial Development Corporation (SIDC)**

The state industrial development corporation (SIDC) were incorporated under the company Act. 1956, in the sixties and early seventies as a wholly owned state government undertaking for promoting industrial development.

There are at present 28 SIDCs in the country, 11 of them functionally also as SFCs to provide assistance to small scale sector and to act as promotional agencies such firm-function SIDCs are in Andaman and Nikobar, Arunanchal Pradesh, Daman and Diu and Dadra and Nagar Havali, Manipur Meghalaya, Mizoram, Nagaland, Tripura, Goa, Pondicherry and sikkim. Seven SIDCs are also involved in infrastructure development and other extension services for the small sector.

Though wholly-owned by state government, the SIDC have been incorporated either as limited liability companies under the Indian companies Act or an autonomous corporation under specific state Acts. This arrangement has given the SIDCs a sufficient measure of flexibility in their operations.

Subject of overall guidance by state governments the af-

fairs of SIDCs are conducted by a board of directors nominated by the State Government. Wherever necessary special committees have been setup to advise the board on the conduct of the business of the corporation. The day to day management is entrusted to the managing director have also been vested with limited Power of approval/disbursal of assistance.

The overall objectives of establishing the SIDCs was to filter up industrial growth in the state by undertaking developmental, promotional and financing functions.

The SIDCs have also adopted the policy of assisting medium-size units. They generally accept an application for a loan more than Rs. 30 Lakhs but less than 100 Lakhs At the same times, they provide help to small-scale industrial units in discovering projects ideas and implementing their projects.

They have also adopted specific strategies for the purpose of achieving the national objectives of the dispersal of industries and widening the entrepreneurial base Further there corporation have decided to sponsor projects in participation with private parties. This arrangement speeds up the industrialization process especially in relatively less developed states where the paucity of entrepreneurial talent is a major bottleneck.

The SIDCs are agents of IDBI and SIDBI for operating its seed capital scheme. Under the scheme, equity type assistance

is provided to deserving first generation entrepreneurs who Posses necessary skills required towards promoter's but adequate resources contribution. The major functions of there corporations include -

- Providing risk capital to entrepreneurs by way of equity participation and seed capital assistance .

- Grant of financial assistance to industrial units by way of loan, guarantee and of late, lease finance by some corporations.

- Administrating incentive schemes of central/state government.

- Promotional activities such as identification of project ideas through industrial potential surveys, preparation of feasibility reports, selection and training entrepreneurs .

- Developing, industrial areas/estates by providing infrastructure facilities.

- Since the actual range of activities being undertaken by individual SIDC depends upon the specific responsibilities entrust by the respective states/ union territory there is considerable diversity in activities among the different SIDCs.

## Industrial Estates

Government of India introduced a comprehensive programme of assistance for speedy development of small industries a field where small entrepreneur felt greatly handicapped was the absence of suitable factory accommodation, even if entrepreneur had the requisite capital the formalities of acquiring suitable land, getting the building plane approved by the local authorities, securing water and power connections and other requirement drainage and sewage disposal presented formidable difficulties they had no idea even as to what kind of building they needed for their industry they needed advice and assistance at every step to overcome this problem the industrial estate programme was launched towards the close of the first five year plan in 1955 The objectives of opening the industrial estates are:-

- To provide well-planned accommodation to small-scale industries at suitable sites, with facilities of water, electricity, transport, banks canteens, and ward and approach was road.

- To bring a number of units together and there by facilitates the establishment of common service centre, introduction of modern techniques, collective purchase of raw material and sale of finished goods, joint publicity and so on, and these enable the small enterprises to avail of external economies there by counter acting to some extent the disadvantage following from

the "smallness" of their size.

- To enable the enterprises to avail if the goods and service of each other, so as to make them complementary and inter dependent .

**Concept And Definition :-**

An industrial estate is a place where the required facilities and factory accommodation are provided by the government to the entrepreneur to establish industrial. According to **P.C. Alexander,** "An industrial estate is a group of factories, constructed on an economic scale in suitable sites with facilities of water, transport, electricity , stam , bank , post office , canteen , watch and ward and first aid, and provided with special arrangement for, technical guidance and common service facilities.*

In the opening of **Bredo,** "An industrial estate in a tract if land which in subdivided and developed according to a comprehensive plan for the use of community of industrial enterprises".

- The united nations has defined industrial estate as "a planned clustering of enterprises offering standard factory building executed in a advance of demand and variety of services as facilities to the occupants."

- Thus an industrial estate is a place where the required facilities and factories accommodation are provided by

Ram K. Vepa: Small Industry the Challenges of Eighties, Vikas Publishing House, New Delhi, 1983, page 6-7

the government to the entrepreneur to establish their indu

there.

**Industrial Estate In India**

The idea of establishing industrial estate was first adop India by the SSIB (small-scale Industries Board) at its meeting h January 1955. Beginning in 1957 with the estate of OKHAL/ programme extended rapidly so that in a decade, the number of e: had gone up to more than 650 making it the largest programm‹ kinds in the world.

Industrial estate were least effective in rural areas, where i expected that they would act as focal point for growth factors re: sible for the failure of the progamme in rural areas are :-

- Lack of coordination in different developmental plar
- Lack of reliable products idea.
- Lack of essential infrastructural facilities like roads, p and water.
- Lack of competent guidance to potential industrial e preneurs
- Lack of local involvement and active participation i programme.

- To make their noble programmes more effective to b

the growth of small scale industry in the country. An industrial estate a cannot create industry. It is not a magic ward. The survey conducte UNIDO has make the following statement.

- Entrepreneurs willing and able to take advantage i facilities offered by the industrial estate

- Adequate infrastructure in terms of water, electricity transport.

- Capacity to screen potential occupants.

- Trained staff with experience in the promotion and n agement of industrial units.

- Clean cut and consistent government policy with res to the objective of the programme willingness to provide the incenti

- Financing institution willing to give credit to the limits.

The industrial estate developed by the government have b plagued by under utilization due to wrong location. A striking evide of this can be found in NCAER's survey of rural estate. The shar functioning units was 46 percent of sheds and plots in Maharastra, 6 in Karnataka, 47 % In Andhra Pradesh 50% in Tripura and a disma % in Bihar, by contrast the rate of utilization of urban estate was m better but not entirely satisfactory, 81 % in Karnatka, 74 % in Harya 71 % Andhra Pradesh and 62 percent in Maharastra and a depress

35 % in Bihar. Industrial estate developed by the government suffer the consequence of ignoring the overriding importance of agglomeration economies in inducing investment by small and medium scale enterprises.

## Technical Consultancy Organisation

Technical consultancy organization (TCOs) was established by the All India Financial Institutions in the seventies and the eigthties in collaboration with state level financial /development institutions and commercial Banks to cater to consultancy needs of small industries and new entrepreneurs. All present, there are 17 TCOs, operating in various states, some of them covering more than one state. Of the total 17 TCOs, 9 are under IDBI, 5 under the IFCI and 3 under the ICICI they catered to the needs of small and medium enterprises all over the country.

**Table 5.1**

***TCOs According to sponsored Institutions .***

| IDBI | IFCI | ICICI |
|---|---|---|
| 1. KITCO, 1972 | 1. HIMCON, 1977 | 1. GITCO, 1978 |
| 2. NEITCO, 1973 | 2. RAJCON, 1978 | 2. ITCOT, 1979 |
| 3. BITCO, 1974 | 3. MPCON, 1979 | 3. MITCON, 1982 |

| | |
|---|---|
| 4. UPICO, 1974 | 4. NITCON, 1984 |
| 5. APTICO, 1976 | 5. HARDICON, 1985 |
| 6. ORTICO, 1976 | |
| 7. JKTITCO, 1977 | |
| 8. WEBCON, 1979 | |
| 9. NECON, 1987 | |

Source : Vasant Desai Entrepreneurial Development, Himalaya Publication House New Delhi 1997.

The TCOs are mainly concerned with area of preparation of the project reports and feasibility studies. After experience ones the years they diversified into areas of identification of potential entrepreneurs and their training project implementation, rehabilitation, management consultancy, detailed design engineering and turn-key services, besides energy audit and conservation. The primary objectives of TCOs were to provide under a single roof a total package of services to small and medium industries major activities are:-

- Carry out industrial potential surveys.
- Evaluation of project referred to them.
- Preparation of project profiles, feasibility studies.

- Assistance entrepreneurs their modernization technical upgradation programmes etc.

- Revival of sick units.

- Provide administrative and technical assistance

- Conduct area development and marketing surveys.

- Identify the potential entrepreneurs and provide them with technical and managemental assistance.

## District Industries Centre (DIC)

Government, both central and state, have in the past, taken a number of measures for development of small and village industries, but the actual achievements have been far below expectations. The focus of attention for industrial development was mainly on large cities and state capitals to the neglect of vast rural areas in district, hence the District Industries Centre (DICs) were established in May 1978, in order to cater to the needs of small units in rural areas . Under the industrial policy statement, 1977. One District Industries Centre(DIC) was established in Dindigul District of Tamil Nadu during 1978-1979.

At the time of inception, there were only 677 registered small scale industries and 16 large and medium scale industries in the district. At present there are 4134 registered small scale industries and 153 large and medium scale industries. The DIC provides the facility for

registration of the units and a number of incentives, concessions and subsidies to small scale industrial units in the industrially backward talks of Dindigul District. The DICs are envisaged as a single window interacting agency with the entrepreneur at the district level services and support to small entrepreneur are provided under a single roof through the DICs. They are the implementing arm of the central and state government of the various schemes and programmes. Registration of the small industries is done at the district industries centres.

The Self Employment For Educated Unemployed Youth Scheme (SEEUY) and Pradhan Mantri Rojgar Yojna (PMRY) for employment generation is also unemployed by the DICs .

**Self Employment For Educated Unemployment Youth Scheme.**

This scheme aimed at providing self employment opportunities to educated unemployed youth. It was started in 1983 the fixation of target was subject to availability of funds.

**Pradhan Mantri Rojgar Yojana (PMRY)**

PMRY is being implemented since 1993, the scheme is designed to create the sustainable self-employment opportunities to one million educated unemployed youth of country during the 8th plan period. During the last 5 years of its implementation in certain parameter of the PMRY scheme needed modification For example compulsory eligibility such as age, educational qualification were coming in the way of ex-

panding coverage of the scheme in some cases. Similarly the total financial assistance project found to be insufficient in case of certain viable activities .

Government, therefore has decided to modify some of these parameters of the scheme. Upper age limit has been relaxed beyond 35 years by 10 years for SC/ST and educational qualification for eligibility under the scheme has been relaxed class X to VIIIth passed. Similarly the upper limit of project cost has been increased to 1 lakhs to Rs. 2 lakhs for ( Rs/ Lakh for business and Rs. 2 Lakh other activities. PMRY scheme would now cover all economically viable activities including agricultural activities but excluding direct agricultural operations like raising crop purchase of machinery.

**Low pension power tariff and generator subsidy scheme**

Low pension power tariff subsidy is given at the rate of 40% of the actual energy charges paid for the first year, 30 % for the second year and 20 percent of the third year. To obtain the low tension power tariff subsidy scheme an eligibility certificate should be obtained from the general manager, district industrial centre, within three months from the date of commencement of production of power connection whichever is later . This schemes helps the units to reduce their production cost, consequently the very objective of this scheme is to reduce the burden of taxation, particularly during the early years of inception of an industrial unit to help the unit to consolidate their financial position.

**State Capital Investment Subsidy scheme**

New SSIs set up in industrially backward areas are eligible for this subsidy on fixed asset value at the rate of 20 % of a maximum of Rs.20 lakhs for not industrially backward areas and 15 lakhs for other areas an additional Rs. 5 lakhs or 50 % of capital investment provided to the units to the employ a total of 30 % of total employment for regular worker of women.

**Organisational Structure**

The organisational structure of DICs consist of one general manager, four functional managers and three project manager to provide technical services in the area relevant to the needs of district concerned management of the DICs is done by the state Government. The scheme has now been transferred to the state and from the year 1993-94, funds will not be provided by the central government to the state for running the DICs. Following are the main function of DICs:-

- It conduct industrial potential surveys keeping in view the availability of resources in terms of material and human (resources) skill, infrastructure, demand for products etc. To prepare techno-economic surveys and identify product lines and then to provide investment advise to entrepreneurs.

- To prepare an action plan to effectively implement the scheme identified.

- To guide entrepreneur in matter relating to selecting, the most appropriate machinery and equipment sources of its supply and procedure for procuring imported machinery.

- To function as the technical claim of DRDA in administrating IRD and TRYSE programmes .To appraise the worthiness of various proposal received from entrepreneurs.

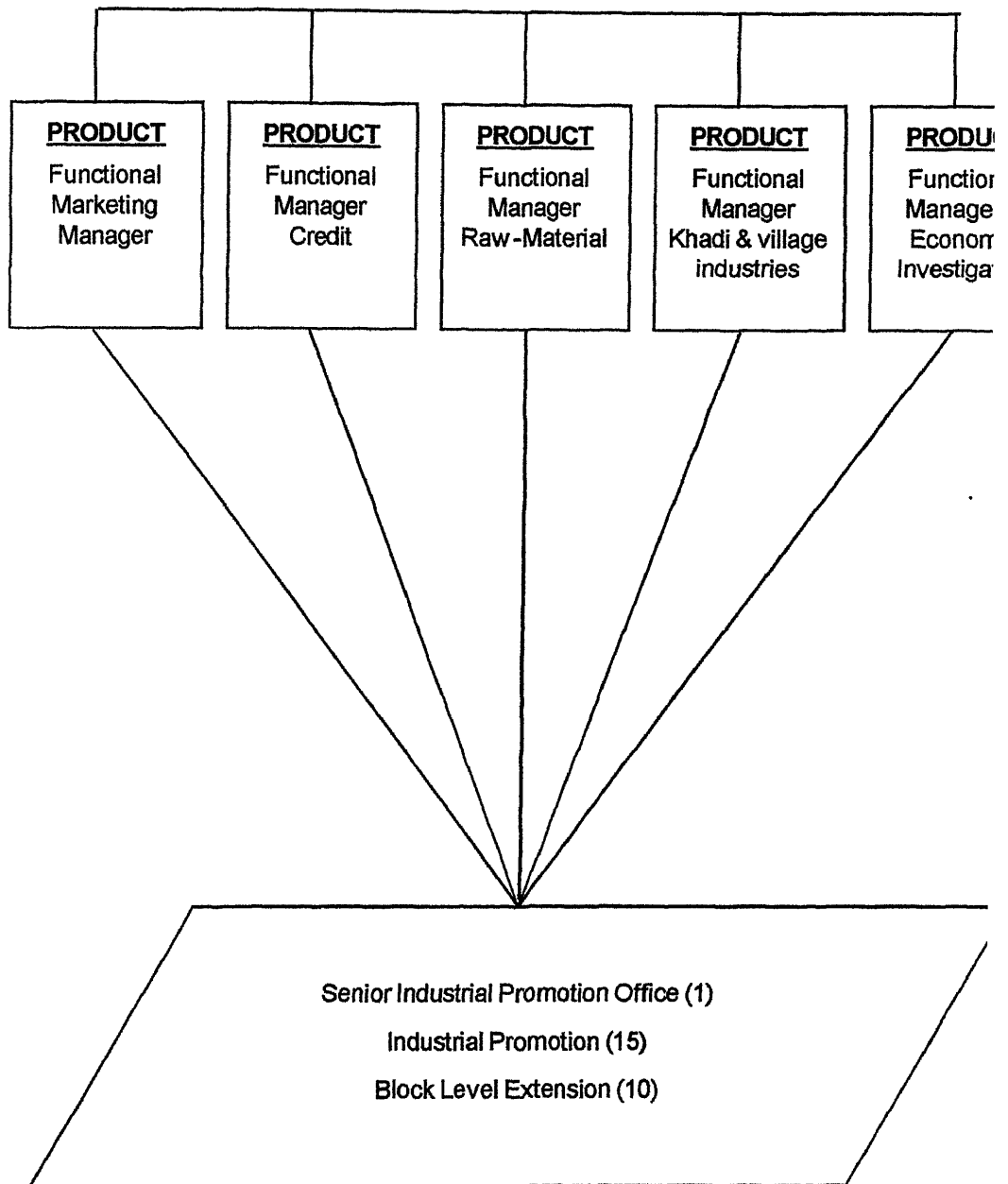
- To assist entrepreneur in marketing their product and assess the possibilities of ancilliarisation and export promotion of their products .

- To undertake product development worth appropriate to small industries.

- To conduct artisan training programme .

Till march 31,1988 420 DICs centres have been set up covering 431 district of the country leaving out the metropolitan city and the new district (The organisational structure of DIC is shown in the Dig. 4)

Diagram - 4

# Organisation Structrue of District Industries Centre (DIC)

# CHAPTER VI

## INSTITUTIONAL FINANCE

Industrial Finance Corporation Of India

Industrial Development Bank Of India

Industrial Credit And Investment Corporation Of India

National Bank For Agriculture And Rural Development

Small Industries Development Bank Of India

State Financial Development Corporation

Other Financial Services

# Institutional Finance

Financial institutions, also known as financial intermediaries, provide the means and mechanism of transferring command over resources from there who have an excess of income over expenditure to there who can make use of same with a view to adding to the volume of productive capital. On the one hand, they create claims in the form of their shares, debentures, deposit etc. against themselves, which they induce the servers to accept in exchange for their savings on the other hand, they acquire claims against the investors by investing in their shares and debentures and granting direct loans to them. It is here, that the role of financial institution originates. They provide a convenient and effective link between savings and investment.

In recent years particularly in mid eighties the financial sector in India has undergone a process of transformation. New institutions have been set up to source the increasing financial needs of commerce and trade in the area of venture capital, credit rating and leasing etc. . At present, there institutions are in the formative stage.

There was steady growth in the number of industrial units assisted, in the amount of loan sanctioned and distributed. The industrial progress achieved by the private sector was largely due to the finances

supplied by these institutions.

Since the beginning of the 4th plan the loan assistance, sanctioned and disbursed by term- financing institutions had picked up rapidly, as the figures in Table 6.1 shows below. Loan sanctioned amounted to Rs. 250 crore in 1970-71, Rs. 2930 crore in 1980-81 and Rs. 1,03,570 crores in 1999-2000 ; the disbursement too rose proportionately from Rs. 160 crore in 1970-71 to Rs. 67,340 crore in 1999-2000 .

**Table 6.1**

***Asistance Sanctioned by all Financial Institution***

| Years | Sanction (Figures in Crores) | Investment (Figures in Crores) |
|---|---|---|
| 1970-71 | 250 | 160 |
| 1980-81 | 2930 | 1850 |
| 1990-91 | 19420 | 9640 |
| 1999-2000 | 103570 | 67340 |

Source : Indian economy Sundram and Datta, 2002

The important financial sources are described below -

## The Industrial Finance Corporation Of India

The government of India set up the Industrial Finance Corporation of India (IFCI) under the IFCI act in July 1948. Since July, 1993 it has been brought under Companies Act 1956, The IFCI extends financial assistance to the industrial sector though rupee and foreign currency loan underwriting direct subscription of share/debentures and guaran-

tees and also offers financial services through its facilitation of equipment procurement, equipment finance buyers and suppliers credit, equipment leasing and financing to leasing and hire purchase companies. It also provides merchant banking with its head office in Delhi and bureau in Mumbai.

A special feature of IFCI's policies has been that they are tailored to growing needs of the country and are integrated with the objectives of the country's five years plans and the national policies, more particularly in the field of industry, enunciated by the government time to time . Therefore the IFCI, in its operations, has been guided by the industrial policy statements and priorities laid down by the Central Government. As the government revise these priorities from time to time. It helps the IFCI as also other participating financial institution to make use of their services and scarce resources in those vital sectors of industries where they are needed most. IFCI has launched various scheme for SSI Entrepreneur (Annexure No. 3)

The board of directors consists of a whole- time chairman and twelve directors. The chairman is appointed by the Central Government after consultation with the IDBI. Two directors are nominated by the Central Government and from by the IDBI, six directors are elected by share holders other than the IDBI Financial assistance provided by the IFCI can be in one or more of the following forms :-

- Rupee and foreign currency term loans.

- Underwriting of share and debenture issues
- Direct subscription to equity.
- Guarantees
- Self loans
- Equipment Financing

Projects costing upon 300 Lakhs are financed by the SFCs, SIDCs, and commercial banks under the refinance schemes of IDBI. Only projects costing in excess of Rs. 300 lakhs are considered for assistance by the IFCI.

Before granting loans to any, industrial concern applying for financial aid, the Corporation scrutinizes the application carefully and the following points are evaluated.

- The importance of the industry to the national economy.
- The feasibility and the cost of the scheme for which the financial aid required.
- The competence of the management
- The nature of the security offered.
- The quality of the product and the country's requirement of the product manufactured.

During 1999-2000, sanctions and disbursements of, IFCI

amounted to Rs. 2,380 crore and 3,260 crore respectively. Among the many industries which have received financial assistance from IFCI are those which are of high national priority such as fertilizers, cement, power generation, paper industries, machinery etc. IFCI has started new promotion schemes, such as

- Interest subsidy scheme for women entrepreneur
- Consultancy fee subsidy schemes for providing marketing assistance to small scale units.
- Encouraging the modernisation of tiny, small and ancillary units.
- Control of pollution in the small and medium-scale units.

To supports entrepreneurs of SSI and medium-scale industries by way of loan finance of soft term the Risk Capital and Technology Finance Corporation provides risk capital to first generation entrepreneurs. It enable the SSI entrepreneurs to raise a portion of equity which is treated as the promoters contribution Personal Loans to promoters may be from 15 lakh to 40 lakh depending upon the number of promoters. Various promotion scheme of IFCI are :

**Cosultancy Free Subsidy Schemes**

- Scheme of subsidy to small enterprises in rural cottage, tiny and small scale sector for meeting cost of feasibility studies etc.

- Scheme of subsidy for consultancy to industries relating to animal husbandry, horticulture, dairy, forming, poultry forming and pi-sciculture etc.

- Scheme of subsidy for promotion of ancillary and small scale industries

- Schemes of subsidy for providing marketing assistance to small scale units .

- Scheme of subsidy to new enterprises for meeting cost of market research/surveys.

- Scheme of subsidy for consultancy an use of non conventional sources of energy and energy conventional measures.

- Scheme of subsidy for control of pollution in the village and small scale industries sector .

**Interest Subsidy Scheme**

- Scheme of interest subsidy for self-development self-employment of unemployed young persons

- Interest subsidy of women enterprises .

- For encouraging quality control measures in small scale factor.

- For encouraging the adoption of indigenous technology .

**Entrepreneurship Development Schemes**

- For encouraging entrepreneurship development in tourism and tourism-related activities.

- For encouraging self-employment amongst person rendered jobless due to retrenchment in nationalization in a high industries unit in the organised sector under going a process of rehabilitation/revival.

## Industries Development Bank Of India

Prior to 1964, there was no any apex organisation to coordinate the function of various financial institution. The V.V.Bhatt rightly pointed out that country needed a central development banking institution for providing "Dynamic leadership in the task of promoting a widely diffused and leadership in the task of promoting a widely diffused and diversified and yet viable process of industrialization to fulfil his objective, the government. Decided to establish the industrial development bank of India (IDBI). The IDBI was establish on July 1, 1964 under the act of Parliament as the principal financial institution in the country. Initially it was setup as a wholly owned subsidiary of the RBI. In February 1976, the IDBI was made an autonomous institution and its ownership passed on from the RBI to the Government of India .

The most distinguished features of the IDBI is that it has been assigned the role of the principal financial institution for coordinat-

ing, in conformity with natural priorities the activities of the institutes engaged in financing, promotion or developing industry. It also provide technical and administrative assistance for promotion, management or expansion of industries and also undertake market and investment surveys as also technical and economics studies.

The IDBI has been playing a significant role in in the promotion of small-scale industries. Its assistance has been channelled through its scheme for the reference of industrial loans and to a limited extent through the bills rediscounting scheme. Since its Inception, the IDBI has been playing a significant role in the promotion of small scale industries. Its assistance has been cancelled through its scheme for the reference of industrial loans, and to a limited extended through the Bills Rediscounting scheme.

The IDBI has been operating a special scheme of concessional assistance to the small-scale sector has been put on a semi-automatic basis under the Liberalised Reference Scheme (LRS).

As a results of the progressive liberalization and significance of its reference operator, its assistance to SSI has increased substantially since 1971-1972. Its assistance to small and medium industrial units flow through 18 SFCs and 28 SIDCs commercial banks and regional rural bank.

**Assistance to small scale sector**

The IDBI extends assistance to the SSI and small road transport operator indirectly through state level institutions and commercial banks by way of refinance of industrial loans - The IDBI has also introduced a scheme to cover promissory notes arising out of scale of new trucks and jeep to road transport operator in the private sector. The IDBI's assistance to small scale industries and small road transport operators is picking up very fast, following are the schemes launched by IDBI to support small-scale industries.*

- National equity fund scheme :- It was launched by IDBI in 1988 for providing support in the nature of equity to tiny and small scale industries units engaged in manufacturing cost not exceeding Rs. 5 lakhs. The scheme was administered by IDBI through nationalized banks.

- Seed capital assistance scheme:- This scheme is operated through SIDC and SFCs as agent of the IDBI. Seed Capital upto Rs. 400,000 is provided by the SFCs under the special capital scheme operated from out of the funds provided by the IDBI and the state government concerned. The amount of seed capital assistance per firm shall not exceed 10 per cent of the project cost subject to a ceiling of Rs. 1.5 million .

The Small Industries Development Fund (SIDF) was inaugurated in 1986 and was executed by the IDBI It assumed refinance against bank loans to the SSI sector the fund is presently being executed by the SIDBI.

S.S.Khanka : Entrepreneurial Development, Sultan Chand and Company, New Delhi, 1999, page 114

IDBI assistance under the SIDC to the SSI sector can be broadly classified into five categories.

1. Reference assistance covering term loans channelized through institutional networks consisting of state level institution (SFCs/ SIDCs), commercial banks, cooperative banks and regional rural banks.

2. Bills rediscounting scheme operated through the banking network covering deferred payment, sales of machinery and other capital equipment

3. Equity support in the form of seed capital / special capital assistance .

4. Direct assistance to the National Small Industries Corporation and State Small Industries Development Corporations to enable them to finance certain specified type of activities designed to assist SSI units.

5. Support to promotional and extension services

- Bill Rediscounting scheme - The rediscounting of bills / promissory notes scheme of the IDBI, arising out of the scale of indigenous machinery to the purchase user on a deferred payment basis is available for the purchase of machinery. An advance/down payment of 15 per cent of the cost of price of the machinery on 10 per cent of commercial vehicle and/or textile machinery is insisted upon the discount rate for SSI unit are shown in Table 6.2 below :-

Table : 6.2

***Discount Rate for SSI Units***

| Particulars | Rediscount (%p.a.) | Discount (% p.a.) |
|---|---|---|
| For unexpired usance bills between 6 & 36 Month | 9.75 | 11.00 |
| For Those over 36 Month | 9.25 | 10.50 |

**Direct Assistance To NSIC And SSIDCS**

The IDBI provides financial assistance to the National Small Industries Corporation for supplying machinery on a hire-purchase basis to small and tiny units such assistance Supplements the support given by credit institution to the SSI

The State Small Industries Development Corporations (SSICs) which are the main agencies at state level provides extension service to SSI are provided assistance in the form of subscription to adhoc bonds/ privately placed debenture repayable over a period of 10 years, inclusive of a two-years grace period, at a concessional interest rate of 11.5 percent per annum.

IDBI also provides promotional and extension services to small units. It has undertaken various promotional activities which include in-

dustrial potential surveys, special studies, consultancy/ advisory services, entrepreneurship development programs as well as programmes for the orientation and training of the personnel of primary lending institutions. The promotional and extension services are available in three main forms.

- Consultancy/advisory services
- Entrepreneurial development programme
- Voluntary executive corps
- Growth of IDBI has been increasing since its inception though it has registered a small increase in loans sanctioned and disbursed in recent years :

**Table 6.3**

***Financial Assistance by IDBI***

| Particulars | (Figure in RS. Crore) | | |
|---|---|---|---|
| | | Years | |
| | 1980-81 | 1990-91 | 1999-2000 |
| Loan Sanctioned | 1,280 | 6,250 | 28,310 |
| Disbursment | 1,010 | 4,460 | 17,060 |

Above Table Represents the Loan Disbursement and Loan Sanc-

tioned by IDBI. It is clear that IDBI's loan sanctioned had increased from Rs. 1,280 crores in 1980-1981 to Rs. 28,310 crores in 1999-2000.

## Small Industries Development Bank Of India

With a view to ensuring large flow of financial and non-financial assistance to the small scale sector, the government of India set up the Small Industries Development Bank of India (SIDBI) under a special Act of the parliament in October 1989 as a wholly-owned subsidiary of the IDBI. The bank commenced its operation from April 2,1990 with its head office in Lucknow.

The main strategy of SIDBI is to focus in the area of raising cost effective resources, improved customer service, building quality long term assets containing non-performing assets and bringing greater value to the share holders. With its competent man-power SIDBI is facing challenges of business environment and remain a strong viable financial institution for last 12 years. Further to adopt suitable business strategies the bank has engaged services of A.F. Ferguson & Co.in this year 2002 In past 12 years SIDBI as the principle financial institution, has remained a force to reckon with for the developments of small scale sector in India. SIDBI has promoting SSI by his various schemes given in (Annexure No. 4)

The amended SIDBI Act provides for a 15 member board of directors comprising the chairman and managing director, two whole time directors, two directors nominated by Government of India, three direc-

tors nominated by institution, bank and insurance companies, owned and controlled by the Central Government, three directors including one director from the officials of the SFCs, nominated by the central government,from among the persons having special knowledge or professional experience and remaining from elected by the public share holders or co-opted by the board.The present board consists of ten directors, of which six, including the chairman and managing director, are nominated by the government of India, one each nominated by IDBI, SBI & LIC, representing institutional share holder and other co-opted by the Board.*

**Performance Of SIDBI**

The effects of SIDBI towards creating world class R&D facilities for the SSIs to face the challenges of new IPR regime ( Intellectual Property Right) and liberalized trade have been further strengthened during this year.Memorandum of Understanding (MOU) signed for setting up of two innovation and incubation centres in collaboration with Indian institute of technology,Kanpur and Birla institute of technology, Mesra, Ranchi turned into reality and the centre at kanpur become operational this year.

The aggregate sanctions of SIDBI during FY (financial year) 2002 amounted to Rs.9025 crores,comparativly lower than Rs. 10,821 crore in FY 2001. Disbursement were also lower at Rs.5919 crore as compared with Rs. 6441 crore during the previous year.The decline in the sanctions and disbursement has been mainly due to slow down in growth

Report of the Committee on the financial system, Government of India, New Delhi,1995,

of Industrial sectors, moderate performance of services sector,and comfortable liquidity in the banking system resulting is lower off take by way of refinance from SIDBI. The cumulative sanction and disbursement of SIDBI since inception aggregated Rs. 75,255 crore and Rs. 52,312 crore registering a non compounded annual growth rate (CAGR)of 13 percent and 11 percent respectively.

The banks networth has increased to Rs.3951 crore at the end of march, 2002 from Rs. 3,771 crore in the previous year. Similarly the assets have increased from Rs.17090 crore as at end march 2001 to Rs.17640 crore.The standard assets as percentage of out standing port folio stood at 94.1 percent as at the end of march 2002.

The decline in the interest rate has led to a squeeze in margins on the business products. The total income during FY 2002 aggregated to Rs. 1559 crore as against Rs.1619 crore as the end of march 2001. SIDBI gross profit before tax for the year 2001-02 was Rs. 405 crore compared with Rs. 477 crore in the previous year. The tax liabilities due to SIDBI coming into tax net during FY 2002 have had an impact on the net profit of the Bank. The net profit of the bank for FY 2002 was lower at Rs.282 crore due to provision of income tax of Rs. 152 crore and deferred tax adjustments of Rs.29 crore.

## The National Bank For Agriculture And Rural Development

For providing credit to promotion of agriculture small scale industries, cottage, and village industries, handicrafts and other rural craft and other allied economic activities National Bank for Agriculture and Rural Development set up through the National Bank for Agriculture and Rural Development Act 1981. The bill for setting up the institution was passed by parliament in December 1981and National Bank came in existence on July 12, 1982.

This institution has been actively assisting the non-form rural sector to create more job opportunities, particularly promoting food processing with and agro based industries along with khadi and village industries. NABARD has been following the policy towards accelerating the growth of employment and export oriented unit in small tiny and village enterprises. NABARD has been assisting non-farm sector activities in two-ways.

(1) Refinance facilities for new schemes which include a 100 per cent refinance and Automatic Refinance Facility (ARF) to small and transport operator, modernization of existing cottage small tiny and village industries refinancing commercial banks for financing small scale industries and extending ARF to industries an co-operations to the extend of 7.5 lakhs.

(2) Promotional activities include measures to catalyzing speedy

industalization in rural areas. These measures include.

- Collaboration with KVIC in the field of rural industalization.

- An expert advisory committee to guide on issues connected with the promotion of handicraft rural cottage and tiny industries and the role of NABARD in providing marketing assistance, assistance for cluster/area development schemes as well as schemes for design and technology disertation.

- Training for officials of DICs to disseminate information about NABARD's different schemes for the non-farm sector.

- Linbag studies through consultants to identity the potential for development of rural industries activities (such studies have been done in U.P., West Bengal and Maharastra)

- Carrying out product studies and grounded pilot projects and various other EDPs and training programme for rural industrialization.

For its short term operation the national bank will borrow funds from the reserve bank in the form of a line of credit under section 17(4E) of Reserve Bank of India Act which permitted the Reserve Bank to grant short term loans to the Agriculture Refinance and Development Corporation earlier and which has now been amended suitably by the National Bank of Agriculture and Rural Development Act.

The method of raising funds include sale of bonds and debenture direct borrowing acceptance of deposit and receipt of gifts grants etc. The National Bank may borrow foreign currency from any bank or financial institution in India or abroad with the approval of the central government which will guarantee such loans.

## Industrial Credit And Investment Corporation Of India

The Industrial Credit and Investments Corporation of India Ltd. (ICICI) was set up in January 1955 under the Indian Companies Act with the primary objective of developing small and medium industries in the private sector. The issued capital has been subscribed by the Indian Banks, Insurance Companies and the Individual and Corporation of the United States, the British Eastern Exchange Banks and other companies and general public in India. The ICICI performs the following function :-

- It provides assistance by the way of rupee and foreign currency loans underwriting and direct subscription to share/debentures and guarantees.
- It offers variety of financial services such as deferred credit, leasing credit, instalment sale, asset, credit and venture capital.
- It gurantees loans from other private investment sources.

The Objectives of ICICI include :

(1) Assisting in the creations, expansion and modernization of such enterprise i.e. small and medium industries.

(2) Encouraging and promoting the participation of private capital, both internal and external. In ownership of industrial investments and the expansion of investment markets. In practice only such project costing more than 300 lakhs are considered for financial assistance by the ICICI. However for purpose of foreign currency loans no minimum project cost restriction is imposed. In the past thirty seven years ICICI in pursuit of its objective of promoting Industrial Development has provided financial assistance in various form .

- Underwriting of public and private sector and offers of scale of industrial securities ordinary shares preferences shares bonds and debenture stock.

- Direct subscriptions to such securities.

- Securing loans in rupee, repayable over period of 15 years.

- Providing similar loans in foreign currency for the payment for imported capital equipment and technical services.

- Guaranteeing the payment for credits made by others.

- Providing facilities to manufacture for the promotion of sale

of industrial equipment for the promotion of sale of industries equipment on deferred payment terms.

The primary purpose for which assistance is extended is the purchase of capital assets in the form of land, building and machinery.

## State Financial Corporations( SFCs)

SFCs were established in different states under the State Financial Corporation Act. 1951, to provide financial assistance to SSI and medium-sized industries in respective state. At present 18 corporations are operating in the states (of which 17 have been set up under a statute and one in Tamil Nadu as a company) and are increasingly providing the terms loans to the small sector. The main function of SFCs is to provide term loans for the acquisition of land, building, plants, and machinery, pre ops and other assets. The state financial corporations have been offering the following facilities to the small and medium sector industries.

- Underwriting issues of stock, shares, bonds or debentures
- Special scheme for technocrat entrepreneurs to act as agents of central and state governments
- Operation of foreign currency credit lines provided by the world bank.
- Deferred payment guarantees for a person not exceed-

ing 1 years.

The assistance provided by the SFCs to the small scale units has been significantly increasing in recent years during 1990-91 to 1995 was represented in table 6.4. The share of SSI had increased to 80.1 per cent in 1995 to 69.2 per cent in 1978-1979.

SFCs provide the following financial facilities.

(a) Loans

(b) Subscribing to debentures issued by industrial concerns from scheduled bank and state co-operative banks

(c) Guaranteeing deferred payment for the purchase of capital goods.

(d) Subscribing to corporate instruments

SFCs also provide seed capital/soft; loans directly as well as under the refinancing scheme off all India financial institutions like the IDBI, IFCI, SIDBI and NABARD under the above scheme assistance up to Rs. 0.2 million is provided at the interest rate of 1 per cent per annum to SSI units. A few SFCs have set up entreprenurial Evidence-cum Assistance Bureaus to guide and help entrepreneur in setting up SSI units.

## Table 6.4
### *Exports, GDP, Degrees of Openess*

| Country | GNP per Capita Dollars (1994) | | GDP million $ | | | Exports million $ | | | Exports/GDP per cent | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | PPP | 1970 | 1980 | 1994 | 1970 | 1980 | 1994 | 1970 | 1980 | 1994 |
| Singapore | 22500 | 21900 | 1896 | 11718 | 68949 | 1447 | 19400 | 96800 | 76 | 166 | 140 |
| Hong Kong@ | 21650 | N.A. | 2951 | 28496 | 131881 | 2546 | 19800 | 151395 | 86 | 69 | 115 |
| Taiwan | 11595 | N.A. | 5670 | 41402 | 241014 | 1469 | 19811 | 93049 | 26 | 48 | 39 |
| South Korea | 8260 | 10330 | 8580 | 63661 | 376505 | 882 | 17500 | 98000 | 10 | 27 | 25 |
| Malaysia | 3480 | 8440 | 4003 | 24488 | 70626 | 1640 | 13000 | 58756 | 41 | 53 | 83 |
| Thailand | 2410 | 6970 | 6543 | 32354 | 143209 | 686 | 8510 | 45262 | 10 | 20 | 32 |
| Philippines | 950 | 2740 | 6999 | 32500 | 64162 | 1064 | 5740 | 13304 | 15 | 18 | 21 |
| Indonesia | 880 | 3600 | 9151 | 78013 | 174640 | 1173 | 21900 | 40054 | 13 | 28 | 23 |
| China* | 530 | 2510 | 138813 | 201696 | 522172 | 5680 | 18100 | 121047 | 4 | 9 | 23 |
| India | 320 | 1280 | 53947 | 172321 | 293606 | 1879 | 8590 | 25000 | 3 | 5 | 9 |

Source : Rakesh Mohan, Small Scale Industry Policy in India : A Critical Evaluation, NCAER, New Delhi, Page 43.

Table 6.5

**ASSISTANCE SANCTIONED AND DISBURSED TO SMALL SECTOR BY SFCS**

*(Rs. crore)*

| Year | Sanctions | | | | | Disbursements | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Total assistance* | *SSIs* | *SRTOs* | *Sub-total (3) + (4)* | *Percentage (5) to (2)* | *Total assistance* | *SSIs* | *SRTOs* | *Sub-total (8) + (9)* | *Percentage (10) to (7)* |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| 1990-91 | 1863.9 (49186) | 1281.5 (3,3582) | 210.3 (11510) | 1491.8 (45092) | 80.0 (91.7) | 1270.8 | 924.3 | 163.1 | 1087.4 | 85.6 |
| 1991-92 | 2190.3 (43981) | 1634.6 (30224) | 237.3 (12330) | 1871.9 (42554) | 85.5 (96.8) | 1536.8 | 1107.9 | 211.3 | 1319.2 | 85.8 |
| 1992-93 | 2015.3 (38040) | 1509.9 (27567) | 175.8 (9146) | 1685.7 (36713) | 83.6 (96.5) | 1557.4 | 1163.9 | 167.3 | 1331.2 | 85.5 |
| 1993-94 | 1908.8 (29641) | 1419.4 (18852) | 141.7 (9427) | 1561.1 (28279) | 81.8 (95.4) | 1563.4 | 1175.2 | 129.2 | 1304.4 | 83.4 |
| 1994-95 | 2760.2 (32179) | 1795.0 (200028) | 197.2 (8841) | 1992.2 (28869) | 72.2 (89.7) | 2005.4 | 1444.5 | 125.4 | 1569.9 | 78.3 |
| Cumulative up to end-March 1995 | 19349.5 (585850) | 13706.6 (415859) | 1792.9 (111557) | 15499.5 (527416) | 80.1 (90.0) | 15337.0 | 11004.7 | 1510.7 | 12515.4 | 81.6 |

*Note:* Figures in brackets in columns 2, 3, 4 & 5 indicate number of assistance and under column 6 percentage share in respect of number of units.

The terms and condition for the grant of financial aid include.:-

- Maximum ceiling of loan to sole proprietary and partnership concern is Rs. 1.5 million and for corporate bodies and cooperative it is Rs.3 million

- The repayment period is 10 to 12 years.

- The margin requirement is 40-50 per cent against fixed asset which is relaxed suitably for technical entreprenurs units in backward areas covered under the central government's credit guarantee scheme.

- The rate of interest for lending various between 12.5 per cent and 14.5 per cent depending upon the type of borrower and the nature of the industry.

Generally lending rates are linked with the IDBIs reference scheme. However, concessional rates varying between 0.5 % and 2.5 % are changed from SSI units in backward areas or units set up by qualified technical entrepreneurs. The Tamil Nadu Industrial Investments Corporation Limited (TIIC), which was establishment in 1949 before the passing of the SFCs Act, 1951 renders the same services to SSI units in Tamil Nadu as SFCs in other states. Another institution here is the State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT), which was established in 1971 as a public limited company and provides loans (Term) to SSI units.

## Other Financial Sources

### National Equity Fund

Encouragement of SSI Start up also requires access for entrepreneurs to additional equity funds. Unlike large enterprises SSI have direct access to equity funds from capital market until they grow to certain level.View to resolve this problem the government established the National Equity Funds, SIDBI has been operating the National Equity Fund which receives resources jointly from Government of India and IDBI (now SIDBI). Even then the scheme is in operation for last 10 years, the off-take under the scheme has not been adequate. Some of the commercial banks have also setup specific funds for providing equity support to new entrepreneurs. In this case the export committee on small enterprises recommends that National Equity Fund would operate much better if this disbursement of its resources decentralized to the cluster level. In order to mitigate the shortage of risk capital required by the small scale industries there is need for encouraging setting up of equity funds by majority of the specialized branches of commercial banks on local area banks. SIDBI could contribute up to 50 percent of the equity funds floated by there commercial banks or Local Area Banks out of the National Equity Fund operated by it the Export committee is of the opinion that such a measure would encourage accelerated flow of equity funds to large number of needy small SSIs. It would be much more likely for the clusters to have new credible entrepreneurs who could be commercially

for the provision of additional equity from the National Equity Funds there branches and local area banks should encouraged from their own local equity fund with assistance from the national equity fund this scheme would provide special assistance to technocratic entrepreneurs who have adequate technical expertise but inadequate resources the assumptions of such entrepreneurship would require greater technical expertise on the part of these bank branches and Local area Banks Local equity funds should also be available for expansion of existing SSIs.*

In the national equity fund scheme the project cost limit will be raised from Rs. 25 Lakhs to Rs. 50 Lakhs the soft loan limit will be retained at 25 percent of the project cost subject to a maximum of Rs. 10 Lakhs per project. assistance under the NEF will be provided at a service charge of 5 per cent per annual.

**Venture Capital**

Venture capital industry has existed in the country since the mid 1980s and can grow into an adult if appropriate regulatory changes are made. Its early development was nurtured by low cost capital sourced from multilateral agencies, the Indian development finance institutions, some commercial banks and overseas donor organisations. In its first stage of development, the impact of venture capital industry on small and medium scale industry has been unremarkable although some success point to a promising future.

Report of Abid Hussain Committee on Small Scale Industry,1997

Two important developments have undermined the foundations on which the venture capital industry was able to grow so far. One, the era of low cost capital has come to an end as the Indian development finance organisations, the chief financiers of venture capital companies, have had to raise capital from the stock markets. Secondly, the venture capital companies now face competition from private equity funds and non-bank finance companies who have entered into later stage financing in the from of "bought-out" deals. The profits form bought-out deals, during the boom of 1994, were high enough for financiers to forego tax benefits granted by the venture capital guidelines of 1988.

So far the venture capital funds set up by private enterprises do not seem to have made significant impact in the field in supporting start-up ventures on account of paucity of funds and their inability to tap the capital market. The announcement made in the budget for 1996-97 SIDBI has a scheme to contribute 50 per cent of the corpus of venture funds of private and public sector companies provided they are fully dedicated to SSEs. This is carried out of a Venture Capital Fund created by SIDBI out of its own resources. The fund is also used for assisting SSI units directly effective steps need to be taken for setting up of regional and sector-specific venture funds. This coupled with the liberalised tax incentives extended by the government to venture capital companies will go a long way in flow of credit to innovative ventures of SSE. Venture capital companies have to find alternative means to survive in a competitive market. They will have to access capital from, other large

funds who can share the extraordinary risks of investments in start-up ventures. The returns from investments can also be raised by better management with experience in this specialized business. Finally, the transaction costs are so high that venture capital companies are unable to afford investments of a value less than Rs. 4 million while most small scale investments are below this threshold level.*

Venture capital companies can share risks with large funds only private pension funds and insurance companies are permitted to invest in venture capital funds. Typically, pension funds, insurance companies and other institutional investors, with their large pools capital, can afford to invest a small share of capital in risky venture capital companies. In the USA, pension funds and insurance companies account for 71 per cent of venture capital investments17. In the UK 65 per cent of venture capital comes from pension funds and foreign financial institutions. The successful management of venture capital projects is ensured by partners who have long experience in this business. In 1990, for example, 89 per cent of venture capital investments in the USA were supervised by management partners who had at least 5 years of experiences*Typically, the investors enter into a management partnership agreement and have no control over day-to-day operation of the project.

The third aspect of successful management of venture capital projects is their location in science parks or some other form of cluster.

Mr. Adrian: Head of Research Support and Industrial Liason, University of Bristol quoted in Business Standard, April 27th 1955

Venture capital companies establish offices in such parks and network within a small community to identify start-ups for financing. Transaction costs, under the circumstances, can be kept low. Moreover, the probability for a successful venture in a science park is higher and is reported to be three times higher. Several changes are required in the Indian regulatory system before venture capital companies can make a perceptible, difference to small companies. The entry of private pension funds would have to be permitted and free entry of private insurance companies would have to be possible. Moreover, the rules under the Insurance Act 27A and 27B stipulating investment of more than 70 per cent of the capital in government securities its similar rules under pension scheme requiring 50 per cent of the investment in public sector bonds will have to be abolished.

# CHAPTER VII

## DEVELOPMENTAL PROGRAMMES FOR SMALL SCALE ENTREPRENUR

Entreprenurial Development

Export Promotion

Backward Area Development

Modernisation Programme

# Development Programmes

Small scale industries has been gaining importance since independence. In view to develop these, Government is promoting this sector in various ways. The important programmes to help SSI are given below :

- Entrepreneurship Development
- Export Promotion
- Backward Area Development
- Mordernization Programme

## Entrepreneurship Development

One of the paradoxes of a developing country, particularly India, is the abundance of natural resources and human skills along with low levels of economic development; in the words of one Japanese observer, 'India is a rich country where poor people live'. Sociologists have attempted to explain this apparent paradox : Max Weber postulated the concept of 'protestant ethic' whereby a work culture is regarded as the hall mark of the protestant religion; Gunnar Myrdal considered it the result of a

'soft state' attitude where societies are reluctant to take hard option .

Entrepreneur is the person with a vision, with the drive and, above all, the self-confidence to attract support for the project. He is also the person to see the project through and make a contribution to the country's economic growth (and a living for himself). He is the 'spark plug' who transform the economic scheme and brings a new sense of dynamism into it.

How are such entrepreneurs produced-are they born or can they be trained? Entrepreneurship is, in fact, everywhere; Indians have made fortunes for themselves in such far flung areas as East Africa, Fiji and Trinidad by dint of hard work; even in the USA, they form one of the highest income groups in the country. Within India, agriculture, which is the basic occupation of 70 per cent of the people, is itself an entrepreneurial activity. The farmer is a risk taker, he gambles with the harvest every year-but the parameters are known to him and the rewards comes quickly .

Traditional societies exhibit a tremendous degree of entrepreneurship when they are no longer shifted by such a tradition; Japan's growth in the Meiji period is an example.

An interesting study has been made at Haward University by Prof. David McCelland, who was investigating why certain societies displayed ,great creative powers at particular periods of

their history: what was the cause, he asked himself, of these creative bursts of energy which again seem to fade out. In his book, The Achieving Society (1961), he postulated that, the need for achievement' (ach factor) was the index of motivation;, it was the need to achieve. Money making was incidental; it was only a measure of achievement, not its motivation.

Prof. McClelland then asked whether this 'need for achievement' could be induced. He conducted a five-year study in one of the prosperous districts of Andhra Pradesh ( 1964-68) in CO-operation with the Small Industry Extension Training Institute at Hyderabad. Under this programme, young persons were selected and put through a three-month training programme and motivated to seek fresh goals. The results of the 'Kakinada Experiment', as it is called, are recorded in a book Motivating Economic Growth (1969). One of the significant conclusions in the book is that traditional beliefs did not seem to inhibit an entrepreneur and that suitable training can provide the necessary motivation to make him an entrepreneur.

Based on these results, India embarked in 1971 on a massive programme of entrepreneurship development, particularly amongst educated youth and specially those trained in technical subjects or commercial skills. The training was for a period of three months and was a mixture of information and self-evaluation as well as an opportunity to formulate projects which are pre-

sented to bank managers and development officials for necessary support. Nearly 20,000 persons have been trained in various institutions and provided with suitable facilities; on an average about 25 per cent of them have set up new enterprises and others enabled to find better jobs than they would otherwise have done.

A National Scheme for Training of Rural Youth was launched in 1979 under which selected personnel are provided institutional training in a number of crafts. This was further expanded in 1983 under a 'crash programme' of self-employment opportunities to educated unemployed youth through the District Industries Centre. A special feature of the scheme is that 25 per cent of the loan advanced is treated as capital subsidy; about 2 lakh youth are proposed to be trained every year.

Entrepreneurship Training is now conducted by a wide network of institutes of which the most Important are the Small Industry Service Institutes; the National Institute of Small Industry Extension, Hyderabad; the National Institute of Entrepreneurship and Small Business Development, New Delhi, the National Institute of Entrepreneurship, Ahmedabad; the Institutes of Management; the Institutes of Technology, and technical and consultancy organisations;

One of the interesting programmes conducted for a similar

purpose in the USA is the 'Junior Achievement' programme based on the principal of catch them young'. This is an activity through which many boys and girls at the senior school level are engaged in setting up companies to make or sell product

A similar programs is conducted in the UK under the name 'Young Enterprises'. The programme operates from September to May. Each company consists of 15-20 young people who meet once (or twice) a week after school hours. They are called the .Achievers' and are in the age group of 15-20 years. Every 'enterprise' is assisted by a local firm; each company has-three advisers- one for general management. One for production and one for sales. An Area Board is formed to assist these companies and fulltime director is hired by the board to recruit 'adviser' and entrepreneurship ,ultimately is an attitude of mind which can take risks but calculated ones; a true entrepreneur is one who sees possibilities in a given situation where others do not perceive it and has the patience and determination to work them out. In developing countries. There is no dearth of ideas but there is a real scarcity of persons with the right blend of vision and practical sense to become entrepreneurs It is in this sense that programmes similar to the Junior Achievement (in the USA) and Young Enterprises (in the UK) need to be mounted in India so that young people are motivated from a young age to 'achieve' something-and not merely look to the com-

forting security of a job in government or industry. The risks in such a course are greater, but so are the rewards-both monetarily and psychologically. It is through the efforts of such persons that small industry can truly become adynamic sector of the economy and contribute to creating jobs and increasing the productive power of the community.

## Export Promotion

### Rationale behind Export Promotion

The capability of Indian SSI products to compete in international markets is reflected in its share of about 35 per cent in national exports. In case of items like readymade garments, leather goods, processed foods, engineering items, the performance has been commendable both in terms of value and their share within the. SSI sector while in some cases like sports goods they account for 100 per cent of total exports. In view of this,export promotion from the small scale sector has been accorded high priority in India' s export promotion strategy which includes simplification of procedures, incentives for higher production of exports, preferential treatments to SSIs in the market development fund, simplification of duty drawback rules, etc. Products of SSI exporters are displayed in international exhibition free of cost.

### International exposure to SSI products

With a view to rendering assistance to Small Scale Units in the

field of exploring market potential, export promotion and exhibitional publicity, the following schemes are being implemented :-

**Export Promotion Programmes / Measures**

With a view to ensure that exporters from small scale sector exhibit their products in the International Exhibitions, required assistance & support is provided. Expenditure on account of space rent, handling and clearing charges, insurance and shipment charges etc. are met by the office of the Development Commissioner (Small Scale Industries) under one of the plan schemes.

During 2000-2001,0/0 the DC(SSI) participated in International Trade Fairs/ Exhibitions. Participation in the named fairs/exhibitions generated large number of Trade enquiries besides certain export orders. It also provided an opportunity to SSI units to display their products in the world market. During the current financial year, it is proposed to participate in 8-9 International fairs/ exhibitions. The basic objective behind. This scheme is that SSI units which otherwise are not in a position to display their products may participate in foreign exhibition/fairs so as to promote their exports. Enquiries generated during such exhibitions abroad are disseminated to all SSI units through a net work of field offices of this organisation. This strategy has been found to be successful for exporters from small scale sector in identifying new foreign buyers/ markets.

**Packaging for Exports**

Role of packaging for exports has gained much significance in view of trends in the world markets. The need for better and scientific packaging for exports from small sector was recognized long back. With a view to acquaint SSI Exporters of the latest.

Packaging standards, techniques etc. training programmes on packaging for exports are organised in various parts of the country. These programmes are organised in association with Indian Institute of Packaging which has requisite expertise on the subject. Basic objective of these programmes is to generate the much needed consciousness in the industry and to educate the entrepreneurs about the scientific techniques of Packaging.

**Barcoding for Exports**

A new program has been drawn up with the assistance of EAN India to sensitive Indian exporters about barcoding. 7 training sessions were conducted in 2000-0 I at different locations across the country. More sessions are planned this year.

**Technical & Managerial Consultancy Services**

Technical & Managerial Consultancy Services to the SSI manufacturers/exporters is provided through a net work of field offices of this office so as to ensure higher level of production and generation of higher

exports .

## National Awards for Quality Products

With a view to encourage the small scale units for producing Quality goods, National Awards for Quality Products are given to the outstanding small scale units, who have made significant contribution for improving quality of their products. The scheme is being operated since 1986. Winners of National Awards get a Trophy, a Certificate and a Cash Prize ofRs.25,000/-($559.6) National Awards encourage Small Scale Industries units to produce quality goods which further enables them to enter into export market.

## Schemes

Marketing Development Assistance :

Marketing Development Scheme (MDA) is also being operated by Ministry of Commerce under which MDA is given to exporters through FIEO and Export Promotion Councils/ Commodity Boards to plan their marketing strategy for export growth. Guidelines in respect of single person sale-cum-study tours abroad and participation in fairs/ exhibition abroad have been revised with effect from 1 st. May, 1999. The revised scheme, is as under :-

Eligible activities

One person sale-cum-study tour(s) abroad

Participation in fairs/ exhibitions abroad.

Eligible exporters

Status Holder exporters namely Export Houses, Trading Houses etc. They would be eligible to get MDA through FIEO. Small Exporters who are not status holders but are eligible to get the Special Import

License (SIL)

Such exporters would be eligible to get MDA through their respective EPCs/Commodity Boards.

Quantum of Assistance

Sales-cum-Study Tour(s) abroad

MDA would be limited to 90 per cent of the actual fare for SSI Exporters and 75 per cent for other than SSI exporters with upper ceiling of Rs. 60,000 in all cases for travel in economy class.

Participation in Fairs/Exhibitions abroad :

MDA would be available on actual fair in economy class and space rent including decoration, electricity, water etc. only and would be

limited to 90 per cent of the total expenditure on above mentioned items for SSI exporters and 75 per cent for other than SSI exporters with combined upper ceiling of Rs.90,000 in all cases.

## Backward Area Development

The problem of the backward areas has assumed considerably significant since the mid sixties from the point of view of both economic growth and as well as National Integration. The agitation witness in many states for the location of major public sectors projects were a reflection of the growing dissatisfaction over the pace of growth in many parts of the country.

There has been an appreciable and gratifying growth of small industry in the country:disconcerting feature was the growth- was uneven-in the relatively more advanced States it was greater than in the backward areas. Since one of the prime objectives of the Small Industry Development Programme was to correct such regional imbalances, the National Development Council took serious note of these developments and appointed two working groups in 1968, one under the chairmanship of Mr. N. N. Wanchoo, then Secretary of the Ministry of Industry, and the other under the chairmanship of Mr. B.D. Pande, then Secretary of the Planning Commission. The Wanchoo Committee was to suggest a package of incentives for the backward areas and the Pande Committee was to lay down criteria for the identification of such areas.

Subsequently, the government of India Categorized all back ward districts into three divisions.

Committee on dispersal of industries: The determination of the backwardness of areas was earlier considered by the Small Scale Industries Board at its meeting held in, April 1960, in . Considering the question of the industrialization of rural areas and industrially undeveloped areas through small and medium scale industries. At this meeting a Committee on Dispersal of Industries was set up to examine the question more intensively. This committee, while noting that unemployment has been used as a general criterion of backwardness in many of the advanced countries, felt that several other factors should also be taken into account in determining the degree of backwardness of an area.. It took the view that for this purpose a district be considered as the unit since the data available to the committee was only upto the district level and not below. Some of the criteria recommended by the committee for determining backwardness were (a) per capita income and per , capita consumption, (b) high density of population in relation to the productive resources and employment opportunities, development of communications both by rail and road, (d) high incidence of unemployment or under-employment.and (e) de-consumption of electric power.

**Area development schemes**

During the Third Plan period intensive development area schemes were taken up by a number of state governments to promote the growth

of medium and large scale industrial Units in regions Which were relatively backward these regions were selected by the state government on their own accord and no specific criteria were laid down for this purpose The Rural Industries Project Programme was also initiated during the Third Plan and was aimed at the intensive.

Development of small industries in select rural areas, many of which were considered backward. These area were primarily selected since it was felt that any significant improvement of agricultural conditions and facilities was not possible in those areas due to lack of irrigation facilities, but possibilities existed for to the setting up of small industries based on local raw materials.

**According to planing commission**

(a) desert areas, (b) agriculturally drought-affected areas, (c) hilly areas, (d) areas :with a predominance of tribal population, and (e) areas of high population density and low levels of income. A study group set up at the instance of the Planning Cornmissioner recommended fifteen indicator as valid criteria for determining the backwardness of an area: These were: (a) total population and density of population, (b) number of workers engaged in agriculture, Including landless labour, (c) cultivable area per worker, (d) net area sown per worker, (e) percentage of gross irrigation area to net sown area. (f) percentage of area sown more than once to net sown area, (g) per capita gross value of agricultural output, (h) establishments using power; (i) number of work-

ers per lakh of population employed in registered factories, (j) mileage of surfaced roads, (k) number of commercial vehicles registered in district, (l) percentage of literate population, (m) percentage of school going children, {n) number of seats for technical training for million population both at the craftsman and diploma levels, and (0) hospital beds per lakh population.

Pande committee decided that not all these criteria would be applicable in determining the degree of industrial backwardness of any areas. It selected the following criteria as being specially applicable for this purpose: (a) total per capital income, (b) per capital income from industry and mining (c) number of worker in registered factories, (d) per capita annual consumption of electricity (e) length of surfaced roads in relation to the population as well as the area of the state, and (f)railway mileage in relation to the population and the area of the state the committee," further'considered that, on the above basis, states may be classified as backward or relatively forward. It recognizes that in each"of the states there would again be areas which particularly backward and which should be selected special fiscal incentives to be recommended by the committee, fell however, that the relatively advanced states would have adequate financial resources to provide such incentives from their own funds while the more backward state would not have sufficient funds to provide such incentives.

Applying these criteria, the Pande Committee recommended that

the following states be considered as industrially backward Andhra pradesh, Bihar, Madhya pradesh, Orissa, Rajasthan and Uttar Pradesh. In addition to they suggested that .the states of Jammu and Kashmir, Assam and Nagaland, which have special problems of their own arising out of their location may also be considered as backward and Qualified for a special treatment by way of incentives for industrial development. Some of there Union territories such as Goa, Manipur, Tripura and Himachal Pradesh were also considered as Industrially backward

**Incentive programmes for backward areas** :

The Wanchoo Committee examined the various incentives that had already been provrided for the development of the backward areas. In Maharashtra, for instance, a package scheme had-been formulated in 1965 for new industries, outside the Bombay-Thana and Poona regions which envisages significant relief in the electricity tariff .

**Intensive to promote investment in backward areas**

Various incentives, both fiscal and otherwise have been provided in order to tackle the problems of industrial backwardness and to promotes private investment in backward areas. These incentives have been provided by the centre by the states and by public sector financial institution.

**Central Government Incentives**

The Government of India has been providing important incentive to promote private investment in backward areas. These incentives are :

- **Income Tax concession :** New industrial units located in backward areas set up after January 1971 are allowed a deduction of 20 per cent of profits for computation of assessable income This concession introduced in April 1974 was to be available for a period of 10 years.

- **Central investment subsidy scheme :-** The Scheme of central centre investment subsidy as original announce in 1970, provided for an outright subsidy at the rate of 10 percent subject to a maximum of Rs. 5 lakhs on fixed capital investment. viz. land building, plant and machinery. The rate of subsidy was subsequently raised to 15 per cent and still later to 20 per cent. As from April 1983, the following pattern of subsidy is being followed :

Category A Areas:- ( No industry district and special region) : 25 per cent investment subsidy subject to a maximum of Rs. 25 lakhs.

Category B Areas :- 15 per cent investment subsidy subject to a maximum of Rs. 15 lakhs.

Category C Areas :- 10 per cent investment subsidy subject to a

maximum of Rs. 10 lakhs.

However the block/talukas/extension of township in category B and C areas which has exceeded an investment limit of Rs. 30 corers as at the end of March 1983 were to be excluded from the scope of the investment subsidy scheme.

With effect from April 1984, the maximum limit of central investment subsidy has been raised to Rs. 50 lakhs at the rate of 25 per cent in the case of electronic industries set up in hilly districts in category A.

- **Transport subsidy scheme :-** Under this scheme, introduced in July 1971, Industrial units set up in hilly, remote and inaccessible areas were entitled to 50 per cent transport subsidy on the expenditure incurred for movement of raw materials and finished goods to and from certain selected rail heads to the location of the industrial units. The scheme is applicable to remote and inaccessible areas in Jammu and Kashmir and North-Eastern hill states.

- **Other Measures :-** As from August 1972, the central Government has been giving priority to backward areas in the matter of issuing industrial licence.

The central Government has also initiated a scheme at assisting state Governments in infrastructure development in identified "no-industry district" upto one-third of the total cost of such development subject to a maximum of Rs. 2 crores. under this scheme, the central government

has helped to develop many growth centre through infrastructure development.

The Government has also granted liberal concession to MRTP/ FERA companies for setting up certain types of industries at location in centrally declared backward areas.

The government has set up an inter-ministerial committee to review the present incentive schemes for industrialization of backwards areas in the light of experience gained so far.

**State Government Incentives**

State Government has also offered incentives to attract private sector units to the backward region. These incentives include provision of develop plots with power and water on a no profit no loss basis, exemption from payment of water charges for some years, interest-free loans on sale tax dues, exemption from octroi duties, exemption from payment of property taxes for some years,preferential treatment for the purchase of stores for unit located in backward areas, subsidy on industrial housing scheme etc. In recent years more than half the assistance sanctioned by SFCs,SIDCo and SIICs went to district designate backward for the concessional finance schemes.

**Concessional Finance by Major Financial Institution**

The three major public sector financial institutions, viz. Industrial

development bank of India (IDBI) The industrial Finance Corporation of India (IFCI) and the industrial credit and Investment corporation of India (ICICI) provide concessional finance for industrial projects located in backwards areas. These concession relates to a lower rate of interest on rupee loans (9.5 per cent as against 11.5 per cent) a longer period of repayment (generally 15 to 20 years, as against 10 to 20 years as against 10 to 12 years) participation in the risk capital or debenture issues, charging only half the normal rate of underwriting commission waiving of commitment charges, etc.

The above three public sector financial institution have also taken many other steps for the development of the backward areas. They have prepared, at their own cost, feasibility study of project which seem promising and they encourage prospective entrepreneur to assesses them and take interest in implementing them. These institutions run entrepreneurial training programmes for the benefits of small and medium entrepreneurs finally, IDBI has been instrumental in setting up several techniques consultancy organisation (TCOs) throughout the country. These organisation provided technical consultancy services so very necessary for the development of backward areas.

**Balanced Regional Development**

Another indicator of regional disparity is the growth rate of NSDP observed during the last two decades.A close persual of the data given in table 2 reveal that NSDP in forward states indicated an annual aver-

age growth rate of 5.2 per cent during 1980-81 to 1990-91.The pre-reform period, however the situation showed a markets improvement in these states and they showed a higher annual average growth rate 6.3 per cent during 1990-91 to 1997-98. As against them, the backward states indicated a growth rate of 4.9 per cent during the pre-reform period (1980-81 to 1990-91), but this growth rate declared in the post-reform period (1990-91 to 1997-98). As shown in Table 8.1

It may also be noted that as compared to average All-India growth rate of 5.5% in the post reformed period. Two major States of IndiaViz: Uttar Pradesh and Bihar showed an average growth of 2.6 per cent and 0.6 per cent respectively. None of the sixth states included in the backward group showed a growth rate higher than the national average.

The planing process by helping the backward regions made an efforts to reduce regional disparities but the forces of liberalisation and globlisation strengthened investment in forward states much more then in backward states consequently regional disparities in growth rates widened further.

## Modernization Programme

An important programme to help small industry is the modernizations of old units involving new technologies and in many cases replacement of machinery. The features of this programme are:-

- Improvement of management Techniques including training of personal .
- Modernization of product design.
- Improvement of organisation;
- Replacement of machinery and equipment, and
- Utilization of appropriate technology to provide optimal

results

The following 20 industries have been selected for moderniza-tions: machine tools, automobile accessories, Casting, domestic elec-trical appliances, hosiery and knitwear, bicycle parts " hand tools, leather goods, scientific instruments, storage batteries, steel furniture, plastic mouldings and extrusions, agricultural imple- ments, readymade gar-ments, domestic utensils, wires and cables, industrial fasteners, paints, varnishes and enamels, packing , industry and builders' hardware

In addition, 38 Industries have been selected in specific areas where they are concentrated. Some of these are :

- Casting (Howraha,West Bengal, Maharashtra)
- Hand Tools(Jalandhar,Nagpur)
- Lock (Aligarh)
- Sports goods (Meerut, Jalandhar,Delhi).
- Tiles (Kerala)
- Graphite crucibles (Rajamandry, A.P.)
- Scientific instruments (Ambala)
- Safety matches (Shivakashi, Tamil Nadu) and so on.

Up to March 1987,637 units have been registered under

modernization programme.

A significant support programme for modernization (as well as other aspects of small industry development) is the creation in 1986 of the Small Industry Development Fund with a corpus of about Rs.2,500 crores. The Industrial Development Bank of India (IDBI) has made a cash contribution of Rs.I00 crores while the outstanding assistance under the refinancing and bill-discounting scheme of Rs.2,400 crores has also been transferred to the new fund. Repayment of assistance and net income from the portfolio will be treated in the fund as well as additional contributions made from time to time.

It is expected that the Small Industry Development fund will play significant role in assisting the small-scale sector to grow in a an orderly and efficient manner.

**Equipment finance scheme**

SIDBI provides under the Equipment Finance Scheme assistance to well run companies on a selective basis for acquiring machinery equipment, both indigenous and imported, which are not related to any specific project. This would facilitate modernizations, technology upgradation, expansion diversification and quality improvement of existing well run units.

**Eligible borrowers**

## Table 7.1

### *Per Capita Net State Domestic Product at Factor Cost*

(At Current Prices) (Rs.)

Annual Average Growth Rate

| State | 1980-81 | 1990-91 | 1996-97 | 1980-81 to 1990-91 | 1990-91 to 1996-97 |
|---|---|---|---|---|---|
| **Forward States** | | | | | |
| Punjab | 2.674 | 8.318 | 18.213 | 12.0 | 13.9 |
| Maharashtra | 2.435 | 7.444 | 17.295 | 11.8 | 15.1 |
| Haryana | 2.370 | 7.508 | 16.199 | 12.2 | 13.7 |
| Gujarat | 1.940 | 5.913 | 13.932 | 11.8 | 15.3 |
| West Bengal | 1.773 | 4.673 | 9.441 | 10.1 | 12.4 |
| Karnataka | 1.520 | 4.598 | 10.279 | 14.4 | 14.3 |
| Kerala | 1.508 | 4.200 | 9,066 | 10.8 | 13.7 |
| Tamil Nadu | 1,498 | 4.978 | 13.989 | 12.7 | 17.3 |
| Andhra Pradesh | 1,3 | 4.728 | 9.867 | 13.1 | 13.0 |
| **Backward States** | | | | | |
| Madhya Pradesh | 1,358 | 4.049 | 7,445 | 11.5 | 10.7 |
| Assam | 1.284 | 4.281 | 6.663 | 12.8 | 7.6 |
| Uttar Pradesh | 1.278 | 3,590 | 6.733 | 10.9 | 11.0 |
| Rajasthan | 1,222 | 4.191 | 9,215 | 13.1 | 14.0 |
| Orissa | 1.314 | 3.077 | 6,422 | 8.9 | 12,6 |
| Bihar | 917 | 3.665 | 3.835 | 11.2 | 6.2 |
| All-India | 1,825 | 5,761 | 12,284 | 12.2 | 13.4 |
| ***Ratio Between Maximum and Minimum :-*** | | | | | |
| **Per Capita NSDP** | **2.9** | **3.1** | **4.7** | | |

Source.Compiled and Computed from data given in RBI. Handbook of Statistics on Indian Economy (1999).

Existing units in SSI sector with good track record of performance and sound financial position are eligible for assistance under the scheme. For this purpose, this unit should have been in operation for a period of atleast three years an have earned profit and/or declared dividend during two years preceding to taking up the proposed scheme. The unit also should not be in default to institution and banks in payment of dues.

:

**Purpose**

Assistance under the scheme may be availed for purchase of plant and "machinery and other equipment including energy saving systems for, modernisation/expansion/diversification/balancing scheme. The scheme could, also cover additional need based civil works, miscellaneous fixed assets, additional margin money for working capital, etc. Second hand equipments will not be eligible for assistance under this scheme.

**Amount of loan**

The amount of loan in individual cases would depend on the cost of equipment, amount of taxes, duties, transportation and installation charges. The minimum amount of loan should not be less than Rs. 25 lakhs per units; no ceiling has been prescribed and a need based approach will be followed in this regard.

**Terms of loan**

| | | |
|---|---|---|
| (a) Promoter's contribution | : | As may be required to arrive at the debt equity ratio of not more than 2:1. |
| (b) Rate of interest | : | The rate of interest 'will depend upon the interest rates prevailing at the time of execution of loan agreement. |
| (c) Upfront fee | : | 1% of the amount of term loan sanctioned. |
| (d) Debt-Equity Ratio | : | 2 : 1 (for the scheme) 1.5 : 1 (for the company/concern.) |
| (e) Repayment period | : | Upto 5 years including initial grace period upto 12 months. |
| (f) Security | : | Exclusive charge over assets purchased out of loan . In case, the borrower is an assisted concern of State level institution/bank the assets purchased under the scheme should be released from their first charge through a specific letter of exclusion by the concerned institution First/second charge of existing fixed assets where deemed necessary feasible. |

**Procedure for sanction and disbursement**

The application for financial assistance should be made in the prescribed form, to the nearest Regional/Branch Office of SIDBI. The borrowing unit will be required to execute a loan-agreement in the prescribed form for availing of assistance under the scheme. It is required to open a 'no lien' account with its bank, through which the amount of loan would be disbursed.

**Modernisation and technological advance**

With the increasing pace of industrialization in the Indian economy research, design and development work related to application oriented technology is vital, not only to improve upon our industrial productivity, but also to develop new technologies appropriate to our needs , To contribute to the competitiveness the small manufacturers need to keep up with technology as much as large ones. As specifications become more exacting and tolerance for defects decreases the demands for small firms to use new technologies effectively grow.

Technology upgradation means the indication of commercially proven advanced technology leading to significant improvements in quality, productivity, cost reduction, saving of energy; saving of scarce materials and use of raw materials. It would also include introduction of new products and new designs within-the same industry group as well as new manufacturing,methods and systems/applications.

To accelerate the development and application of indigenous technology to production processes, Technical Development Board was proposed to be set up as a statutory body under the Technical Development Board Act,

The Board provides equity capital or any other financial assistance to industrial concerns attempting commercial application of indigenous technology or adopting imported technology to undertake domestic applications. The small scale units have special problems in raising capital. They have to pay for debt capital. Loans taken from the financial institutions get priority for repayment. The small scale industrial units do not have retained earnings to finance modernisation programmes or training on their own. Without it financial aid the small scale industrial. Units may not be able to update their technology or modernize their production processes.

Technology flows in the small scale sector should, therefore, be accompanied by adequate capital flow. Acquisition of new technologies, modernisation and sustained technological up gradation in the small scale sector would not be possible without institutional assistance.

**Technology development and modernisation fund Objective**

To encourage existing industrial units in the small scale sector to modernize their production facilities and adopt improved and updated technology so as to strengthen their export capabilities.

**Eligibility criteria**

The eligibility criteria for assistance under scheme are as under:

- small scale industrial units including ancillary units which go in for modernisation/technology upgradation, the outlay on land and buildings should not exceed 25 per cent of the outlay on modernisation/ technology upgradation programme .

- the units should be in operation at least for a period of 3 years .

- units which are already exporting their products or have the potential to export at least 25per cent of their output ~ adopting the modernisation scheme; and :

- units which are not in default to institutions or banks.

Units satisfying all the above requirements may be considered for assistance .

**Purpose of assistance**

Assistance under the scheme would be available for meeting the expenditure on -

- purchase of capital equipment, need based civil works and acquisition of additional land: .

- acquisition of technical know-how, designs, drawings, and

fashion forecast, where relevant to specific product group;

- upgradation of process technology and products with thrust on quality improvement comparable with acceptable domestic and international standards; .

- improvement in packaging; and

- cost of TQM and acquisition of ISO 9000 series certification.

**Minimum promoters' contribution**

The minimum promoter's contribution required would be 20 per cent of the cost of the project and may be in the form of additional share capital contribution, interest free unsecured loans to be brought in promoters or internal cash accruals during the implementation period.

**Modes of assistance**

By way of direct term loan from SIDBI or participation in equity or both. Participation equity will depend upon the exit route available to SIDBI for disinvestment in due course.

**Amount of loan ,**

Assistance will be need based subject to a minimum of Rs. 10 lakhs per unit.

**Terms of assistance**

- Rate of interest: Prime lending rate of SIDBI.

- Security : Exclusive charge over assets purchased out of the loan, first/second charge on existing fixed assets and other collateral security; as may be deemed necessary.

- Period of repayment: Period of repayment will be fixed, based on repaying capacity of the borrowing concern, but normally not exceeding 5 years including a moratorium upto 1 year.

- Upfront fee No upfront fee will be levied .

**Working capital requirement**

The unit should arrange with its bankers to provide additional need based working capital facility. SIDBI may also provide additional working capital by way, of short-term loans in suitable cases.

**Assistance for developmental purpose**

Apart from providing loan/equity assistance to individual projects, as mentioned above, SIDBI may also provide assistance by way of loan/ grant to accredited agencies for undertaking the following developmental activities:

- Special studies on cluster basis for modernisation at macro level in the clusters as also for drawing up micro level unit specific schemes.

- Assessment of export market for particular product groups through consultants having specialisation in the area.

- Assessment of export potential/capability of existing small scale units and preparation of export marketing strategy.

- Suitable training programmes for improving the skills and managerial effectiveness of entrepreneurs of the small scale industries and their first line manager through well accredited training agencies. In drawing up the training programmes, special attention should be given to the training needs of small industry managers engaged in export marketing covering procedures/formalities connected with export trade and export strategies. Annexure

# CHAPTER VIII

## GROWTH AND PERFORMANCE DURING PLAN PERIOD

## Growth And Performance During Plan Period

One of the unique features of India economic development during the last four decades has been the phenomenal growth of the small scale industries. They not only provide employment to the target number of people but also account for half of the gross out put in the manufacturing sector and have a significant share in the export earning as well.

The small scale industries is estimated to have recorded a growth of 0.1 % in out put at current prices, despite the encouraging growth achieved by the industry as well as manufacturing sector during 2001-02. The production of the SSI sector, at current price, in projected to reach Rs. 697,522 crores, during the year 2001-02 as compared to Rs. 645,496 crores in the previous year shown in the Table.8.1

The number of SSI unit is estimated to touch 34.64 lakh as at end-March 2002 from the 33.70 lakhs figure recorded as at end March 2001, while the number of persons employed in the sector is estimated to have risen to 192.3 lakhs from 185.64 lakhs at the end of the previous year- Export from the SSI sector during the year placed at Rs. 62,377 crores are projected to have recorded a growth of around 4% over the previous year`s level of Rs. 59,978 crores.

Table 8.1

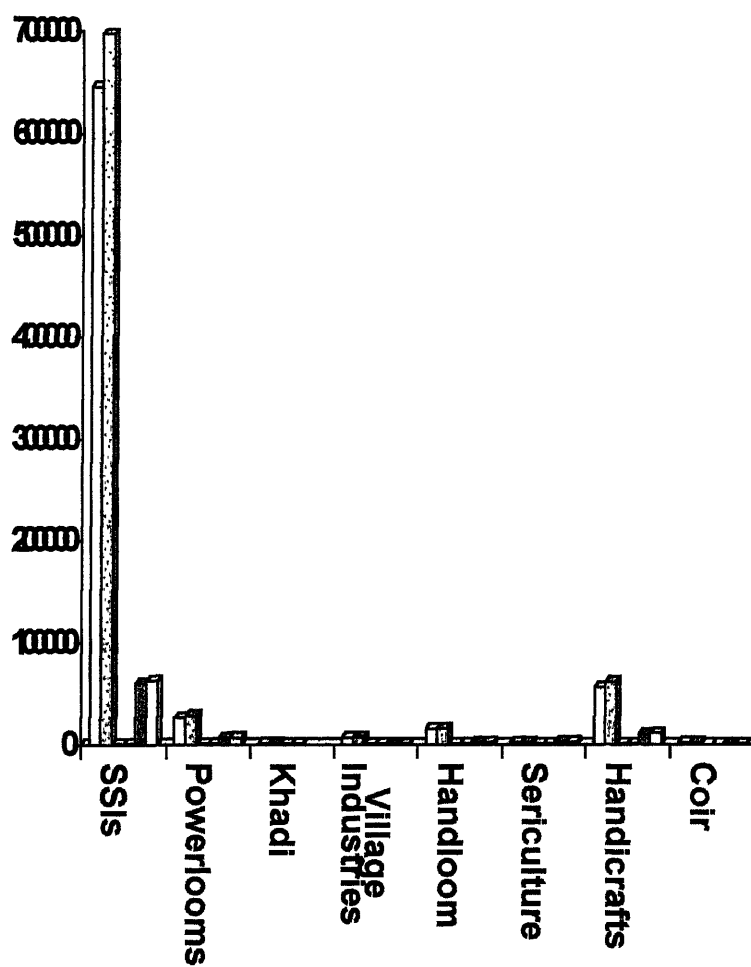
**Performance of village and small industries Sector**

| | Production (Rs. Crore) | | Employment (Lakh no.) | | Exports (Rs.Crore) | |
|---|---|---|---|---|---|---|
| | Actuals | Anticipated | Actuals | Anticipated | Actuals | Anticipated |
| | 2000-01 | 2001-02 | 2001 | 2002 | 2000-01 | 2001-02 |
| **Modern SSIs** | | | | | | |
| SSIs | 645,496 | 697,522 | 186 | 192 | 59,978 | 62,377 |
| Powerlooms | 26,157 | 28,250 | 42 | 43 | 5,853 | 6,146 |
| **Sub-Total** | 671,653 | 725,772 | 228 | 235 | 65,831 | 68523 |
| **Traditional Industries** | | | | | | |
| Khadi | 562 | 580 | 14 | 15 | Neg. | Neg. |
| Village Industries | 6,273 | 6,775 | 53 | 56 | 33 | 35 |
| Handlooms | 15,197 | 15,500 | 124 | 125 | 1,761 | 1,796 |
| Sericulture | 1,728 | 1,901 | 54 | 56 | 2,122 | 2,228 |
| Handicrafts | 55,804 | 61,384 | 99 | 104 | 9,271 | 10,610 |
| Coir | 1,250 | 1,350 | 5 | 5 | 314 | 320 |
| **Sub-Total** | 80,814 | 87,490 | 349 | 361 | 13,501 | 14,989 |
| **Total** | **752,467** | **813,262** | **577** | **596** | **79,332** | **83,512** |

Source : SIDBI Annual Report 2001-2002

The total production of village and small industries sector in 2001-

## FIGURE-F

### *PERFORMANCE OF VILLAGE AND SMALL INDUSTRIES SECTOR*

02 was higher at Rs. 813,262 crores as compared to Rs. 752,467 crores during 2000-01 Employment in the village and small industries sector is estimated to have increased from 577 lakhs persons as at end-March 2001 to 596 lakhs as at end, march 2002. Exports from the village small industries estimated at Rs. 83,512 crores during the year 2001-02 as compared to Rs. 79,332 crore during the previous year.

## First Five Year Plan (1951-56)

To protect the small scale sector, the first five year plan recommended 'Common Production'Programme to ensure that while large and small units both make their contribution to the total requirement of the community, the small units would fulfil the targets set for them .

If industrial development in the country is to proceed rapidly and in balanced manner greater attention will have to be paid to the development of those states and regions which have so for remained to backward and important land mark in the history of the development of small scale industry in India was the visit of 'International perspective team' in 1953-54 which was jointly sponsored by government of India and ford foundation.The team in its report recommended the setting up of regional extensions institutes to provide service in areas of technical,marketing and financial matters.In pursuance of the recommendations made by the team,for regional extensions institutes were set up at Bombay,Delhi,Calcutta and Madras,to provide assistance to small Industries.Two organisations constituted by the government to extend

further help and guidance were small industries Development Organisation (SIDO),1954 and National small Industries corporations (NSIC),1955.Thus the ground work was laid for the growth of small scale Industries in India. The Industries policy resolution of 1956 made a reference to the problems of disparities in the level of development between different regions.

The revolution,while noting that the concentration of industries has been due to the availability of services and facilities in certain areas,enunciated,as one of the aims of national planning ``To ensure that facilities are steadly made available to the areas which are at present lagging behind industrially or where there is a need for providing opportunities for Employment`` The resolution further pointed out that only by "securing a balance and co-ordinated Industrial development and the Agricultural economy in each region,can the entire country attain a higher standard of living."*

## Second Five Year Plan (1956-61)

Second five year plan which was finalised soon after the industrial policy resolution was announced, took up the theme at some greater length. This plan gave prominence to heavy and basic industries but did not neglect the small industries or the small producers. Infact the basic philosophy of the plan was not only to encourage the small industry,but too establish an economic order with the small producers at the centre.The plan also endorsed the common production programme ."

* First Five Year Plan, Govemment of India, 1952, Page 442-443

The proposal for non-expansion of the capacity of selected large-scale industries.

It is pointed out that in any comprehensive plan of development,'It is axiomatic that the special needs if the less developed areas should received due attention.' And "The pattern of investment must be so devised as to lead to balanced regional development.The report referred to discussions at the National Development council and started that it has been agreed in principle that,'within the resources available,every effort must be made to provide balanced development in different parts of the countries.' The report also referred to the recommendations of National Developmental council that a continuous study be made of the problem of diminishing regional disparities and that a suitable set of indicators of regional development be evolved. This was a significant step forward in arriving at an objective measure of varying level of economic growth in the country.

## Third Five Year Plan(1961-1966)

The third plan report devoted a separate chapter to balanced regional development,indicating the increasing importance of this problem.The optimism of the second plan had given way by this time to a greater recognition of the complexity of the problem.The third plan aimed at a greater diversification of the production in the small sector and a closes integration between the large and the small sector in specified items Another scheme of the plan was to reserve certain items ex-

clusively for the development of small sector The emphasis in the plan was rather on the fullest utilization of resources of each region,for this purpose,it recommended that "each region should endeavour to identify,plan for and promote industries,which are specially suited for its conditions and for which it can provide relatively greater facilities.

The third plan,however treated the various states as units of development and continue to rely on the strategy of locating new projects in a widely dispersed manner so as to obtain such a balance economic development .The growing disparities within the state themselves did not seems to receive much attention in the report,nor the possibility that quite after location of large projects was not by itself adequate to stimulate adequate growth. Government has given annual plans (shown inTable 8.3) after third five year plan to develop Small Scale Industry. Figure shows the trend during various annual plan

## Fourth Five Year Plan (1969-74)

Fourh five year plan document frankly recognizes that the problem of imbalances between the state is highly complex .It however,stated that,important aim of the industrial development must be to meet the local demand through local progressing and utilization of locally available material.The fourth plan accepted the policy of decentralized growth of industry.

In July 1969 14 major commercial bank of the countries were

nationalized this has helped to accelerate the flow funds from the banks to the small sector.The main programme during the plan were credit,training common service facilities,quality marketing and consultation of industrial estates programme to be administered by the states.In terms of allocation of funds,some attempt was made in the fourth plan to cater to the backward states.About 10 percent of the capital assistance was set apart for states whose per capital income was less than the national average.There was also special facilities to be developed for border areas and the states of Assam,Jammu and Kashmir and Nagaland The North Eastern Council was also established to cater the special requirement of the North Eastern Region.

## Fifth Five Year Plan (1974-79)

The fifth plan mention``significantly large number of persons already depended on traditional industries like Handloom, Agriculture, Coir, Khadi and Village industries are living below the poverty line.Therefore,principal objective of the plan for the development of different small industries in the fifth plan are to facilitate the removal of poverty and inequality in consumption standard of these persons through creation of large scale opportunities for fuller and additional productive employment improvement of their skills so as to improve and their level of carving.``

The broad strategy of the programme for the development of the small industries was to:-

- Development and promote entrepreneurship and provide a 'package consultancy services so as to generate maximum opportunities for employment,particularly self-employment.

- Facilitate fuller utilization of the skills and equipment of the persons already engages in different small units.

- Progressively improve the production of technique of these industries so as to bring them to a viable level.

- Promote these industries in selected,`Growth Centres` in the semi urban and rural areas including backward areas.

- Special emphasis on development of backward tribal and hilly areas.

The revised fifth plan allocated a sum of Rs. 510 crore for village and small industries in the public sector.The estimated expenditure during 1974-78 on village and small industries aggregated to Rs. 388 crores between 1974-75 and 1977-78 exports of handicraft rose from Rs.194 crores to Rs. 440 crores.Similarly the production of small scale industries increased from Rs. 538 crores in 1974-75 to Rs. 1000 crores in 1977-78

## Sixth Five Year Plan (1980-85)

In sixth five year plan the programmes for the village and small industries sector would be so designed as to subserve the following

objectives

- Improvement in the levels of production earning,particularly of artisans,through measures like upgradation of skills and technologies and producers oriented marketing .

- creation of additional employment opportunities on a dispersed and decentralized basis

- significant contribution to growth in the manufacturing sector to through interalia fuller utilization of existing installed capacities

- establishments of wide external ways through appropriate training and package of incentives

- Creation of viable structure of village and small sector so as to progressively reduce the role of subsidies

- Expanded efforts in export promotions. Sixth plan laid special emphasis on backward area and categorises the following area as needing special attentions.

(i) High population density areas in the gangatic plain

(ii) Areas with exceptionally low productivity in Agricultural

(iii) Pre-dominantly tribal areas

(iv) Areas with special ecology as desert and hilly areas.

Sixth plan allocated a sum of rupees 1952 crore for village and small industries this sector however received 1.8 per cent of total outlay. A review reveals that production in this sector has increased from 33538 crores in 1979-80 to 65730 crores in 1984-85 and export from Rs. 2281 crores 1979-80 to Rs. 4458 crores in 1984-85 at current prices a current prices. With legend to employment it increased from 834 lakh persons in 1979-80 to 315 lakhs persons in 1984-85 whereas the output target was exceeded in money terms. The employment target could not be achieved but there was the shortfall to the extent of 11 lakhs persons.

## Seventh Five Year Plan (1985-90)

This plan added emphasis is to be given to industrial development strategy based on adequate infrastructure development in corporating the 'growth centre' concept and nuclear plant approach together with the appropriate ancillarisation. This approach would also aim at dispersing industries away from urban concentration this will also include offering job opportunities in the rural area nearer home .

The review of seventh plan reveal that the achievement of modern small scale industries and powerloom cloth surged forward and was even more than the targeted launch in terms of production employment as well as exports. As against as achievement of Rs. 50520 crores in production in 1984-85, the production of modern small scale sector increased to Rs. 92080 crores in 1989-90. Indicating an annual average growth rate of 12.7 per cent

In de overall scenario production improved from Rs. 64669 crores in 1984-85 to Rs. 114314 crores in 1989-90. Indication the compound growth rate of 12.1 per cent between 1984-85 & 1989-90 at constant prices. The term of employment the growth rate was 4.4 per cent. Total employment in this sector increased from 309 lakhs to 385 lakhs. In case of export the achievement was commendable . Exports from villages and small sector increased from Rs. 4558 crores in 1984-85 to Rs. 14807 crore in 1989-90 at current prices, the average annual growth of exports was 26.6 per cent.

## Eighth Five Year Plan 1992-97

The main thrust of the eighth plan has been employment generation as the motive force for economic growth. The important plan proposal include :-

- The plan has reiterated the timely and adequate availability of credit is of more importance than concessional credit.

- In order to upgrade the technology, the eighth plan proposes to establish appropriate tool room and training institutes.

- The growth centre approach has been accepted as a suitable measure for industrial dispersal and is under implementation . During the eighth plan establishment of 70 growth centre was completed. Establishment of functional industrial estate with substaintial agricultural vegetable and horticultural products was also proposed.

- The eighth plan also invisaged to set up integrated infrastructure development centre for tiny unit. For this, the centre, the state government and industry associations were to be involved.

The eigth plan allocated a sum of Rs. 6,334 crores i.e. 1.5 per cent of the total public outlay for development of village and small industries the actual expenditure was Rs. 7,094 crores i.e. 1.4 per cent of the total outlay

## Ninth Five Year Plan (2001-02)

The ninth plan prepared under the united front Goverments was released in march 1998 according to the planning commission "The principal task of the ninth plan will be to user in a new era of people oriented planning, in which not only the goverments at the centre and the state, but the people at large, particularly the poor, can fully participats. A participatory planning process is an essential pre-condition for ensuring equity as well as accelerating the rate of growth of the economy."

### Table 8.2

***Targets andAchievement of Village & SSI in the Eighth and the Ninth Plan***

| | 1996-97 Target | 1996-97 Anticipated Achievement rate of Growth | Ninth Plan (2001-02) Target | Ninth Plan (2001-02) Annual Average |
|---|---|---|---|---|
| **A. Production** | | | | |
| Modern Sector | 4,20,000 | 418,863 | 738,180 | 12.0 |
| 1. Small scale Industries (Rs. in Crores) | | | | |
| 2. Powerloom Cloth (m.sq.mtrs) | 15,240 | 17,300 | 30,489 | 12.0 |
| Traditional sector | | | | |
| 3. Khadi Cloth (m.sq.mtrs.) | 125 | 125 | 280 | 17.5 |
| 4. Village Industries (Rs. Crores) | 4,120 | 4,120 | 7,261 | 12.0 |
| 5. Coir Fibre (000 tonnes) | 276 | 271 | 375 | 67 |
| 6. Handloom Cloth (m.sq.mtrs) | 7,000 | 7,000 | 12,336 | 12.0 |
| 7. Raw Silk (tonnes) | 16,250 | 14,000 | 20,540 | 7.9 |
| Handicrafts (Rs. Crores) | 29,620 | 29,620 | 52,201 | 12.0 |
| **B. Employment** (Lakhs) | 585 | 575 | 666 | 3.0 |
| a. Modern Sector | 235 | 228 | 264 | 3.0 |
| 1. Small Sector | 159 | 159 | 184 | 3.0 |
| 2. Powerlooms | 72 | 69 | 80 | 3.0 |
| b. Traditional Sector (3 to 7) | 354 | 347 | 402 | 3.0 |
| 3. Khadi & Village Industries | 61 | 61 | 70 | 2.8 |
| 4. Coir Industry | 5 | 5 | 6 | 3.7 |
| 5. Handlooms | 149 | 149 | 173 | 3.0 |
| 6. Sericulture | 69 | 61 | 71 | 3.0 |
| 7. Handicrafts | 78 | 61 | 71 | 3.0 |
| C. Exports | 29,004 | 52,229 | 104,000 | 14.7 |
| 1. Small Scale Industries | 20,201 | 39,291 | 78,900 | 14.5 |

Source Various Economy Surveys

The credit facility provided by government and non governmental institutions are increased. To provide technological support and training the small scale sector, are being setup tool rooms at various cities with the help of foreign assistance. SIDBI has already setup Technology Development and Modernization Fund with a corpus of Rs. 200 Crores. The Government has also set up Technology Trust Funds, with contributions from State Government and Industry Associations for acquisition and transfer of latest technology.

The targets of production, employment export set for the ninth plan one given in table 9.3 from the data given in the table it is clear that the production of SSI expected to increase at an annual average growth rate of 12 per cent, Similar in Power loom sector and other sector. Total Employment generations in SSI sector is higher than the rate of growth of employment generation in other sector of the economy visualized for Ninth plan. It has also seen that export also go up from Rs, 52,230 Crores in 1996-97 to Rs. 104,000 Crores in 2001-02 , indicating an average annual growth rate of 14.7per cent. It is also noted that out of total exports of SSI sectors expected by 2001-02 of the order of Rs. 104,000 crores, the share of the modern sector will be Rs. 86,950 crores i.e. 83.6 per cent. Therefore it is clear in the Ninth plan that SSI in most vibrant sector for Indian Economy and needs protection and encouragement.

Despite incidents of sickness, the small scale industry continued to record a higher growth rating protection then the entire industrial sector during 1999-2000, the small sector according to economic survey 2000-01 recorded a growth of 8.23 per cent over the previous year which is higher then the growth rate recorded by the industrial sector as a whole. Their were 3.06 Lakhs sick unit during the year in which Rs. 4,313 crores was blocked. Out of these 3.06 lakhs units 18,692 were consider potentially viable by the banks with their outstanding bank credit amounting to Rs. 377 crores. Further more, the banks had identified 2,71,193 units with outstanding bank credit amounting to Rs. 3,746 crores as non-viable.

Small enterprises which are innovative and flexible have proven that they can successfully complete with large forms-large industries, with the opening up of economy, are involved revamping and restructuring their operations with increased cooperations of small units by way of promoting ancillaries, extending sub contracting facilities.

**Table 8.3**
**Annual Plan (1966-2002)**
**Annual Plan Outlay by Central, State and Union Territories (1966-2001)**

| Annual Plan | | Amount (Rs. in Crore) | | | Percentage Distribution | | |
|---|---|---|---|---|---|---|---|
| No. | Years | Village & SSI | Others | Total | Village & SSI | Others | Total |
| 1 | 1966-69 | 126.1 | 1384.3 | 1510.4 | 1.9 | 20.9 | 22.8 |
| 2 | 1979-80 | 255.7 | 2157.8 | 2383.5 | 2.1 | 17.5 | 19.6 |
| 3 | 1990-91 | 877.9 | 5496.4 | 6374.3 | 1.5 | 9.4 | 10.9 |
| 4 | 1991-92 | 941.2 | 5623.3 | 6564.4 | 1.5 | 8.7 | 10.1 |
| 5 | 1992-93 | 995.3 | 6448.9 | 7444.2 | 1.4 | 8.9 | 10.2 |
| 6 | 1993-94 | 1152.2 | 7328.9 | 8481.1 | 1.3 | 8.3 | 9.6 |
| 7 | 1994-95 | 1512.4 | 7575.6 | 9088.0 | 1.5 | 7.7 | 9.3 |
| 8 | 1995-96 | 1794.4 | 9013.7 | 10808.1 | 1.7 | 8.4 | 10.1 |
| 9 | 1996-97 | 1811.4 | 10256.0 | 12067.4 | 1.5 | 8.6 | 10.1 |
| 10 | 1997-98 | 1813.9 | 8492.2 | 10306.1 | 1.4 | 6.5 | 7.9 |
| 11 | 1998-99 | 913.1 | 5093.1 | 6006.3 | 1.1 | 6.1 | 7.2 |
| 12 | 1999-00 | 1642.8 | 6809.9 | 8452.6 | 1.0 | 4.0 | 4.9 |
| 13 | 2001-02 | 1215.6 | 8664.0 | 9279.6 | 1.0 | 6.9 | 7. |

Various Economy Serveys

**FIGURE-G**

**ANNUAL PLAN OUT LAY(1966-2002)**

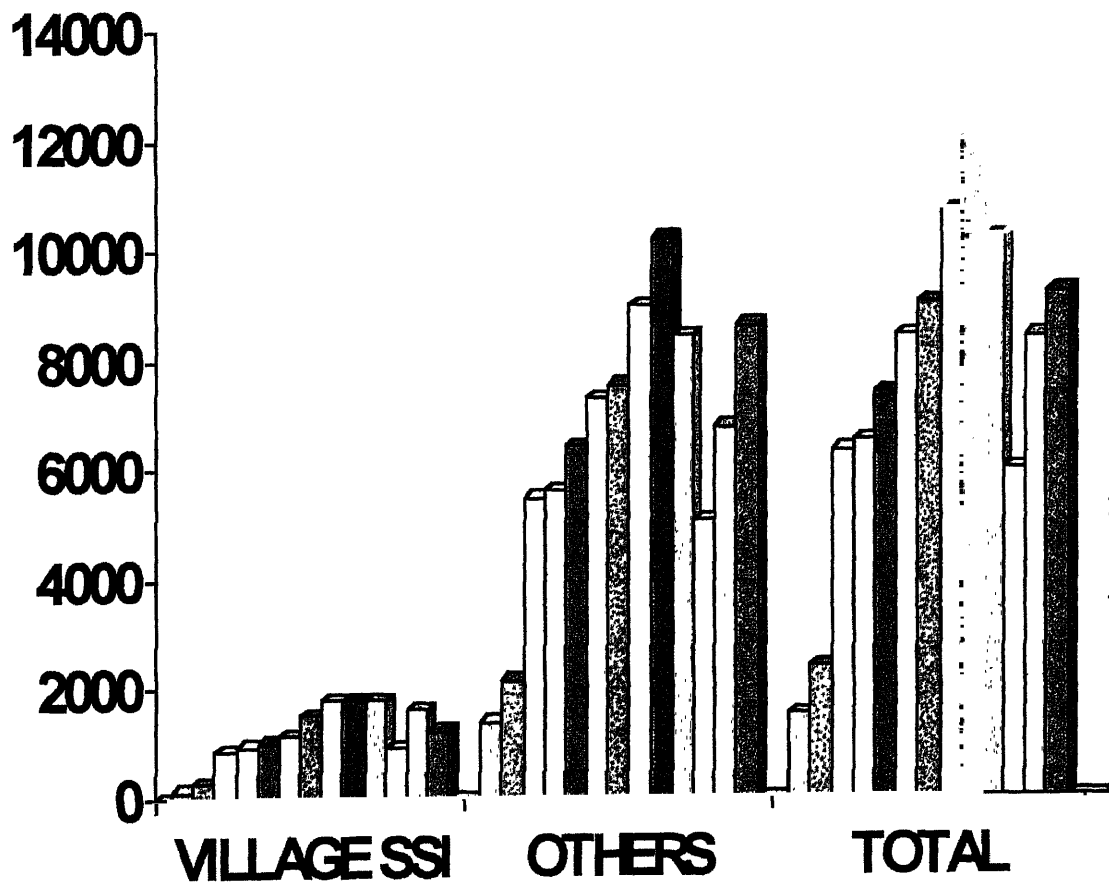
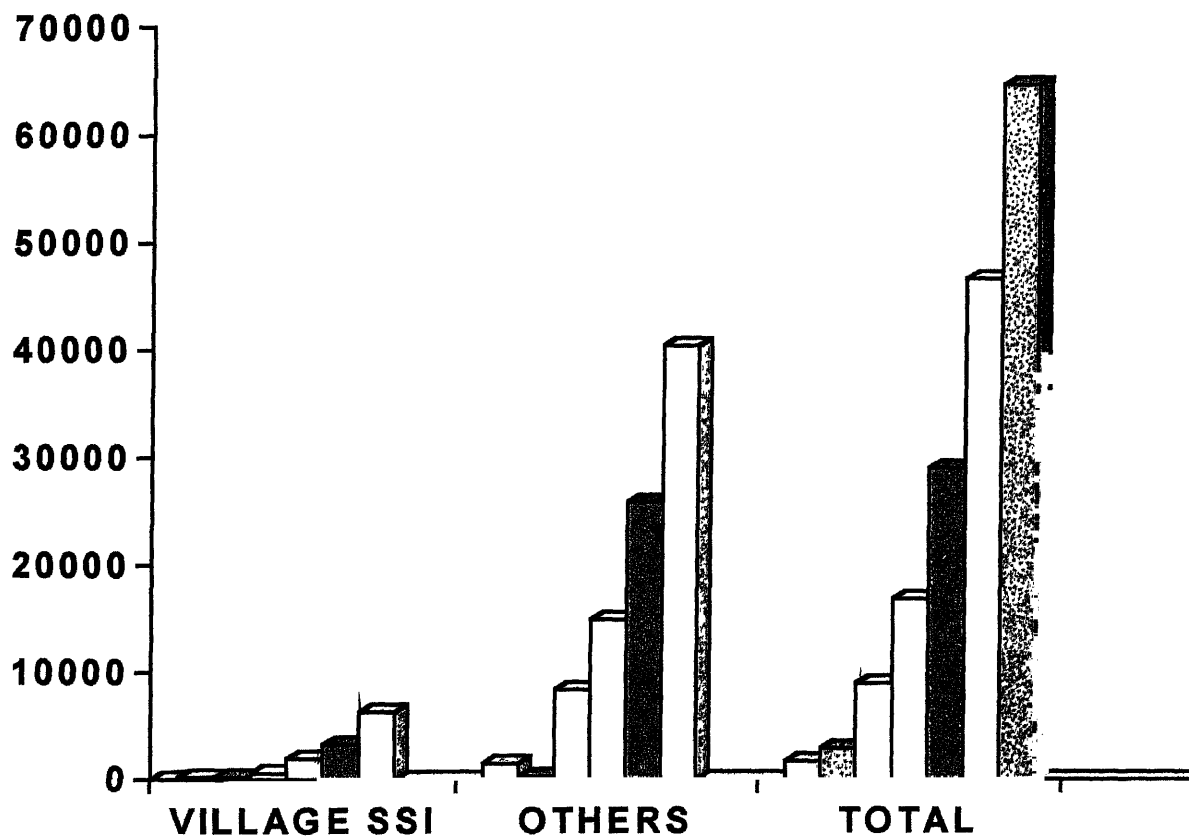



**Table 8.4**

**Plan Outlay in Different Five Year Plans**

| | Amount (Rs. in Crore) | | | | Percentage Distribution | | |
|---|---|---|---|---|---|---|---|
| Plan | Years | Village & SSI | Others | Total | Village & SSI | Others | Total |
| Third | 1966-69 | 240.8 | 1485.5 | 1726.3 | 2.8 | 17.3 | 20.1 |
| Fourth | 1969-74 | 242.6 | 261.8 | 2864.4 | 1.5 | 16.7 | 18.2 |
| Fifth | 1974-79 | 592.5 | 8396.1 | 8988.6 | 1.5 | 21.3 | 22.8 |
| Sixth | 1980-85 | 1945.0 | 15002.4 | 16947.5 | 1.8 | 13.7 | 15.5 |
| Seventh | 1985-90 | 3249.3 | 25971.1 | 29220.3 | 1.5 | 11.9 | 13.4 |
| Eighth | 1992-97 | 6343.2 | 40587.0 | 46921.7 | 1.5 | 9.3 | 10.8 |
| Ninth | 1997-02 | N.A. | N.A. | 65148.0 | N.A. | N.A. | 7.6 |

Source : Various Economy Surveys

FIGURE-I
OUTLAY OFFIVE YEAR PLAN S

# CHAPTER IX

## GLOBAL COMPETITIVENESS

Global View

Achieving Global Competitiveness

## Global Competitiveness

Small Scale and cottage industry has received attention not only in india but all over the world small industry is usefull vehicle for growth of economy. Japan small enterprise development programme has been a model for india and other countries Japan still, relies largely on the vast network area of small and industries enterprises. so supply components and intermediate products to the large industry.

China although a late stater, has placed the great deal of emphasis on the development of rural and small industries the maximum of "Walking on two legs" China has, since 1949, endeavoured to develop the country side through a programme of establishing small industrial units based on the four 'locals' raw material, local skills, local market and local finance. china give great emphasis to light industry for consumer goods carried on by the small and medium entrepreneurs.

South East Asia, consisting of india. Pakistan, Bangladesh and small neighbours Srilanka, Napal and Bhutan have many problems of their own. In all these new jobs have to be created to meet the growing needs of an expanding labour force, and agriculture is already over crowded and can not provide employment

on the scale needed in all these countries traditional skills which have been developed through centuries need to be harnessed to an industrial culture so that they can be utillised productively.

Even in the developed countries of Western Europe UK and US there is a recognition that small and rural industries play a significant role in complementing the large industry and in providing opportunities for excative energies of the skilled people.

**Global View**

The small business in US generate more than twice the namber of jobs than Industory does, and create more innovations than medium and large scale industries. Following is the US Government Policy towards small business:-

1. It is highly favourable and inspiring.

2. Give much reduction in progressive taxation.

3. Venture Capital market in fully developed and provides full support to small business.

4. SSI are financed by large corporations in the USA.

5. SSI are largely technology based. They are also equipped with modern machinery.

6. Advanced computer based technology leads to designing new products and gives an edge over global competitions.

7. Base of the industry is very bigger.

8. Small scale market is highly innovative.

Small business are widesprad in Japan, even out numbering those in the USA they provided 50 percent of Japan's industrial output and 75 perecnt of its total employment, against 25 percent and 50 percent in the USA.

Features of Japan's small Enterprises are :-

1. They are smaller than those in the USA.

2. They are technology based.

3. Give more emphasis on R&D and innovation.

4. They are supported by the following companies.

- Six giant muffi industry groups each based around a major bank or trading company.

- Seven giant vertically integrated industry groups.

- Six finance centred groups.

- Three large outsiders :-Sony, Honda, Pioneer.

- All the above large groups support 8,30,000 SSI.

5. Big groups sustain themselves on the Strength of SSI.

6. Sub-contracting is an important typs of SBE.

7. Two-thirds of manufacturing SSI's worth & 8,30,000 are sub-contracting units.

8. Government of Japan and stats level institations help SBEs

Small business in europe including Germany, France, Italy and Finland, are less dynamic than those in the USA and the UK for the reasions given below :

- The European base of industry is smaller than the USA.

- Smaller market and no strat-up a large scale for innovation labour market in Europe is rigid due to higher wages/replacement of labour by automotation and widespread unemployment.

- Rigid capital market is unfavourable for small business finance.

All over the world small business enterprise are popular and have uniform feature and qualities which are as follows :-

1. Absence of functional managment: managment rests in the owner who usually lacks knowledge in production, finance and marketing managment.

2. Organization structure: is small, simple and does not differentiate between the owner-manager. It is independent, flexible and

traditional, compatible with a small volume of output and turnover.

3. Decision making is faster, formal and more personalized; lacks decisional layers and communication steps. The owner's presence does not leave much scope for delegation or sharing of authority. He sets objectives, goals and plans to achieve them.

4. Organizational culture: owner-centred, 'top-down' culture dominates the workplace. Individuals in the workplace are related by a network of personal relationships, have self discipline and are bound by harmony and love. Their attitudes towards each other are well-defined.

5. Control : direct supervision by owner-manager. There is no formal hierarchy in management and operations as is the case in large businesses.

6. Operations: learning and training is job-based. There is no formal training, Most of the business knowledge is gained on the job through work experience. It serves local customers and has a limited share of the available market.

7. Investment and resources: the owner-manager invests his/her personal funds in the business.

8. Influence and growth: both internal and external Influences are active in SBEs. Internal Influences are confined to family members and external Influences comprise commercial contacts, which in turn may or

may not lead to the growth and expansion of the enterprise. Customers, suppliers, professional advisers, close and trusted business acquaintances, friends and relatives also exercise Influence on the firm.

## Achieving Global Competitiveness

Organization, all over the globe, are striving to enhance their productivity in order to say competitive. Due to intense global competition, organizations must use very possible measure to enhance product quality and decrease product costs.

In the emerging environment, the basic challenge before all segments of Indian industry is how quickly it can raise its efficiency and competitiveness in order to be able to cope with competition in both domestic and external markets. Indian industry must be prepared to face the reality that the protection accorded to it through high import tariffs, prohibition on restriction of entry of MNCs into the Indian market will not be available much longer.

Indian small industry faces several challenges due to its technological obsolesces, product quality, information technology and inadequate management systems. The achievement of the Millennium Mission demands that the small industry adopts coherent strategies and equips itself with strategic business tools. These can be identified as :

- Understanding the role of partnerships and new alliances

- Partnership sourcing

- Capitalizing on tools
- Technology
- Understanding the E-Zone
- Understanding the WTO and its imperatives

**Partnering for Profit**

Corporate ventures are symbiotic relationships between small and medium or large businesses, usually from similar business sectors and can vary in the form they take. Some may be structured arrangements where each partner has clearly defined responsibilities while others may be more informal.

When to Enter into a Joint Venture (JV)

Small companies embark on JVs to tackle gaps in their competitiveness that are either too expensive, or too time-consuming, or both, to fill with home-grown competencies. Indian companies can enter into JVs when they need to attain global standards of quality, technology, management practices, and strategic thinking, since these are transferred by their transitional partners directly to the alliance. The lower the level of vertical integration in the industry, the better are the opportunities for finding partners with competencies in parts of the value-chain maximizing the chances of success.

The selection process must begin with an internal audit of strengths and weaknesses so as to ensure that the partner's skills complement rather than overlap. Equally important is the check for a cultural fit, which will ensure a commonality of vision, values and motivational factors. The most crucial aspect of picking the right partner, however, is the process of pairing of profiles. The ideal combinations are between long-time business associates, between customers and suppliers, and between companies with distinct geographical markets.

**Benefits**

Greater access to large firm management, marketing skills and experience and network of contacts, suppliers and customers.

- Helps gain access to international markets.

- Longer term source of finance with understanding of the requirements, realistic growth rates and risks involved in product development in the sector.

- Hands-on finance, perhaps offering management expertise, payroll skills, accountancy/financial skills.

- Enhanced credibility (with customers, financial community, suppliers) by association with large firm.

- May enable better protection of intellectual property with the weight of the large firm behind them in possible lawsuits.

- May also provide access to premises, staff or equipment, often at a reduced rate.

**Partnership Sourcing**

As the global economy heats up, astute organizations are realizing that traditional business models based on geographic constraints and industry cartels are outdated. The Internet is enabling the development of electronic market spaces in a truly global fashion. Furthermore, there is an ever-increasing understanding within major companies that the key to their survival lies in retaining and enhancing relationships with their customers and suppliers. These two factors have stimulated new ways of thinking about traditional relationships and has not taken a new dimension with partnerships taking center stage.

Relationships between small/medium companies and much larger customers have traditionally revolved around the use of power. Power has been a way for the large customer to treat the supplier as a subordinate, by focusing on price and prompt delivery alone. Many compile an extensive supplier base, indirectly pressurizing their suppliers into staying price competitive or running the risk of being replaced by another. This power game is short term and antagonistic and nurtures neither the security needed to work well together, nor the incentive to do better.

Partnership sourcing marks a shift from this traditional practice towards a situation where the supplier is treated as an associate of the

buying organization where power is altered into cooperation and price competitiveness is complemented by quality, innovation and shared values and ambitions. The focus is long term, based on trust and mutual support.

**Capitalizing on Exports.**

The 1990s have witnessed a growing and irreversible trend towards globalization which has blurred the lines between domestic and international trading. The protective tariff and non-tariff wall which segregated domestic markets from international markets are slowly coming down. The gradual lowering of these walls, accompanied by other liberalization measures, has taken the decision of whether to go global or not out of the hands of enterprises.

India exported Rs. 118 billion worth of goods in 1996-97, the bulk of which, to the tune of Rs. 32 billion, emanated from small industry. However, there remains a vast export potential in the Indian SMEs waiting to find expression.

- Increased sales and profit
- Growth
- Opportunity to utilize excess production capacity.
- Opportunity to offset seasonal demand

- Enhanced competitiveness

The Indian small sector which is contributing about 40 per cent of total exports from the country has a considerable presence in the following areas for boosting exports:

- Computer software
- Leather and leather products
- Light engineering products
- Hand tools and implements
- Auto components and ancillaries
- Garments including hosiery
- Handlooms and handicrafts
- Food and Agro-based industries
- Builders hardware : steel, brass, aluminum
- Pharmaceuticals and chemicals

Today's competitive environment favours only the 'survival of the fittest'. Indian small business must become a trader or marketer not only for the 9000 million people in India but for the 5.5 billion population of the world, taking the entire globe as one village and one market, to remain globally competitive.

**Technology**

Technology provides the cutting edge of success in a world striving to improve the quality of life through better products and services while protecting the environment. The Indian small industry, which already accounts for 40 per cent of industrial output and 35 per cent of the total exports of the country, can play a far more active role in the country's economy by focusing on technology upgradation in order to become a globally competitive enterprise. This will result in making the 'Made in India' brand a reality.Problems in Technology Upgradation and Acquisition :

- Lack of information and finance on relevant technologies
- Need for a better investment climate in India
- 24 per cent cap on equity participation by large companies in SSI units is inadequate
- Need to strengthen indigenous technological infrastructure including R & D and enterprise linkage, industrial engineering design and consultancy services.

In order to fully exploit the potential and capabilities of the Indian small industry and to integrate it with world economies, there is need for evolving integrated policies and programmes revolving around technology acquisition and modernization. Strategy for technological

upgradation of small industry is outlined below. In order to make the small enterprise competitive and to put pressure on its output quality, it is important that certain minimum standards are developed and adhered to through self-certification. Another aspects to this is to facilitate raw material testing for small units. Often raw material is the determining factor in the overall quality of the final product quality. Large industries can join hands and establish a common testing facility for their vendors (like the automobile manufacturers for auto components). In the agro and health care sectors more innovative ways need to be found. Strong user groups, medical professionals and industry may set up testing facilities for these sectors which directly affect the health of the public at large, with industry associations or NGOs independently. A part of the National Labs can be converted into standards and testing facilities laboratories (NPS is doing good work in material testing). Such facilities may not be under its direct administration and may have user groups or NGOs for administration and management.

Large scale units to have an ancillary/vendor development department which functions as a single window for small scale companies - for information, orders, payments, assistance in quality adherence and also for raw material selection some companies have also suggested loans of necessary tooling in initial production years like tools for manufacturing dies, jigs and inspection fixtures Technical assistance is also sought by small units and they prefer to work with the development development/engineering department of their large scale sourcing com-

panies. This is important and large scale sourcing companies. This is important and large companies should extend this support for the overall technology/quality enhancement of the final product.

Demand for the product manufactured by a large company can fluctuate as there are some products with seasonal market cycles. In such case, inventory control norms should be followed with a prior agreement on how much inventory the large company should keep and how much the small scale unit should keep testing and standards adherence is another area where large companies can facilitate their vendors. SMEs and large companies have a symbiotic relationship and both are dependent are dependent on each other. The auto components sector is a reasonably good example in this field. The focus should now be on the capital goods, bio-medical, advanced composites and white goods sectors in order for Indian companies to develop strength in the sectors.

In order to address some of the issues related to technology development/sourcing, raw material testing, etc. a group of small industries may need to work together to share their facilities or develop new facilities. In case a chain of SMEs is developing an end product, this becomes more practical. We have witnesses a revolution in milk, through cooperatives. Similar cooperatives can be developed for select agricultural items which have either good prospects in the export market or which have a large domestic demand. In health care equipment a similar approach would have good returns. The availability and retention of

good manpower is one of the issues cited by small industry. An innovative way of creating a pool of manpower which works on an assignment basis in SSI cooperatives could be evolved. Small industry's main strength is often cited as its flexibility of labour and of operation. This strength can be put to great use in specialization jobs. Technology Incubator Models may be developed around engineering/agricultural institutes, which contain such facilities as space, marketing tools and management skills to entrepreneurs in their first two or three years of operations. The focus should be on developing technologies which have multiple industry use. A few examples here are IC chip manufacturing, sensors, new materials, packaging and software, etc. The services sector can also be tapped - travel and tourism, information services, home delivery services, maintenance service, home appliances, electronic goods, transport, storage services, etc. These industries may also be provided inputs for boosting exports.

**Information Technology**

Here on the edge of the twenty-first century, a fundamental new rule of business is that the Internet changes everything. At the minimum, Internet technologies are altering the way every company, even a small one, deals with its employees, partners, and suppliers. Not every company needs to use the Internet to interact with its customers at present but someday soon a corporate website where customers can do business with a company will be as essential as the telephone. Already an

overwhelming majority of Fortune 500 companies have websites. The Internet has reduced costs for transactions and distribution and has reshaped the relationships of companies with their customers. The Net produces more competition among vendors and more access to vendors by potential customers.

In pre-Internet days, the only way consumers could get goods from most manufacturers was through tiers of distributors and resellers. Today, they can deal directly with manufacturers eager to offer Internet services. Today a manufacturer can provide the Internet equivalent of a factory outlet. Prior to the Internet, gathering information for financial products, travel options and other consumer products required lots of time. A multitude of service companies make their money by collecting and organizing that kind of information for customers. Tdoay, despite imperfect search tools, consumers themselves can go to the Internet to find much of the information they need. Any company can dispense valuable information cheaply by means of the Internet without branch offices.

The term 'friction-free capitalism' is used to describe how the Internet is helping to create Adam Smith's ideal marketplace, in which buyers and sellers can easily find one another without taking much time or spending much money.

Finding the other interested party is the first problem in most markets. The second is understanding the nature and quality of the goods and services being offered. The Internet makes it easy for a buyer to get

background information about a product, how it is rated by consumer organizations and sellers will be able to target their wares to the people most interested and cross-sell related products.

**Understanding the WTO**

The WTO is an international body dealing with international trade rules. It aims at facilitating trade among countries by creating conditions of competition that are fair and equitable. It encourages countries to enter into negotiations for the reduction of tariffs and the removal of other barriers to trade and requires them to apply a common set of rules to goods and service products that are imported and exported. Fundamental changes are taking place in the international trading system. The WTO will be the focal point of these changes. Indian industry must keep itself abreast of these changes and must take a proactive and long-term approach to the emerging issues.

The basic implication of the WTO agreements is that competition will intensify in both the domestic market as well as the international markets. As for as the domestic market is concerned, competition will intensify from Imported goods entering freely into the domestic market at lower and lower tariffs; and foreign companies especially TNCs. Establishing subsidiaries, including those acquiring domestic firms in India, primarily for accessing the Indian market.

Their strength will emanate not only from their financial and stay-

ing power, but also from their well-known trademarks, proprietary technologies an international networking.

The main threat to our exports to industrial country markets will be from non-tariff barriers especially in the form of environmental, health and safety standards. Other factors such as labour standards (including child labour) and intellectual property protection will also affect India's exports. Trade and Environment in the WTO and its Impact of India SMEs

SMEs account for 35 per cent of India's total export and hence are the major foreign exchange contributors to the country's exchequer. Exporters have already felt the impact of the growing environment agenda in the international trading arena. India has also felt that new issues like environment can easily negate the gains secured through the lowering of trade barriers and phasing out of the quota regime obtained through hard bargains in the Uruguay Round of Negotiations. It would also be difficult to sustain the present growth rate in exports given the Indian industry's failure to comply with the environmental norms. The following small industry sectors have been identified as causing above average environment pollution :

1. Primary metallurgical producing industries including zinc, lead, copper, aluminum and steel

2. Paper, pulp and newsprint

3. Pesticides/insecticides

4. Dyes

5. Leather tanning

6. Rayon

7. Sodium/Potassium cyanide

8. Basic drugs

9. Foundry

10. Storage batteries

11. Acids/alkalies

12. Plasters

13. Rubber synthetics

14. Fermentation industry

15. Electroplating industry

16. Fertilizers

Some of these industries are important India's export trade, for example, textiles and garments, agro-based items, marine products, leather, dyes and intermediates and pharmaceuticals. These are the sectors wherein developed countries seek to impose more stringent environmental standards and regulations. The Indian small industry which

is a dominant player in these sectors will have to ensure that it meets the requisite environmental norms and standards if it want to retain its share in world markets the environmental agenda will have an overriding priority in all future negotiations on international trade. Indian exporters as well as promotion agencies and government organizations connected with the Indian export effort, need to adopt proactive strategies instead of evolving half-baked responses to rapidly changing situations.

Opportunities for SMEs under the WTO System

The WTO legal system benefits SMEs both as exporters and importers. As exporters, the major advantage that the system provides is :

- Security of access : In trade in goods, almost all tariffs of developed countries and a high proportion of those of the developing and transition economies have been found against further increases by the Uruguay Round. In trade in services, countries have made binding commitments not to restrict access to service products and foreign service suppliers beyond the conditions and limitations specified in their national schedules.

- Stability of access: By requiring all countries to apply at the border the uniform set of rules elaborated by the various agreements, the WTO system provides Stability of access to export markets.

As importers of raw materials, intermediate products and ser-

vices used in production, SMEs benefit from the rules of the system. This requires imports to be allowed in without further restrictions upon payment of duties and the obligation to ensure that the other national regulations applied at the border conform to the uniform rules laid down by the agreements to facilitate importing. Furthermore, the tariff bindings assure the importers that their importing costs will not be inflated by the imposition of higher custom duties.

The Trading Opportunities that are Likely to Unfold for India will be Due to (a) Tariff reduction by all countries more to say the industrialized countries which are likely to provide increased market access for industrial products of developing countries from 20 to 40 per cent, (b) reduction in subsides and supports would open up large markets for Indian agri-products. A new opportunity has already emerged as a result of recent reduction of tariff and removal of duty on brown basmati rice by the EU effective from July 1995; (c) the phasing out of MFA will particularly benefit countries like India ; (d) even the easier movement of people will be of considerable significance to the India Services export ; (e) the rule based multilateral trading system, the lowering of restriction on imports, on the ground of dumping and the dispute settlement mechanism, as evolved by the WTO are expected to strengthen the world trading system and therefore open up new trade opportunities.

The WTO Legal System has Created Rights in Favour of SMEs

(a) Right to enterprises to request their governments to take ac-

tion to restrict imports in the fact of increased competition resulting from liberalization measures; (b) Rights to enterprises to request for the levy of anti-dumping duties on imports that are being dumped and for the imposition of countervailing duties on products that are entering the country at extremely low prices because of the subsides that they are receiving.

The invocation of these rights is subject to certain conditions. The request for such actions can be made if it is supported by enterprises that account for a substantial proportion of domestic production and it is possible for them to demonstrate that the increased imports are injuring the industry by bringing about a decline in production, in profits or in employment.

In the Present era liberalization the medium and long term interest of SSI may be hurt if commensulate measure are not taken to meet the forces of competition which are bound to increase from country as well as abroad. In many products it seems that the sector can stand on its own. In fact the small scale sector should have specific legislative and protective measures for SSI growth and government should ensure the enactment of such legislation. The small scale sector require radical restructuring of the administrative and regulatory regime governing SSI so as small scale industry can be free of plethora of unnecessary proceural and paper work as for as establishment and maintenance of small scale industry is concen. The

Government policy towards the small scale industry should be based on diminishing role of regulatory function, provide taxation relief and more inclined towards infrastructural promotion, giving tcehnological and training assistance, promoting cluster and sub contracting, removal of counter productive reseirvation policy, promote export to help small scale sector, remain competitive nationally and internationally. The small scale enterprises should stress by themselves to grow in clusters inspite of being dependent largely on supportive government policies, they should develop their own frame-work of training, finance, marketing and export and wish to grow bigger rather than to stay smaller to get government facilities small scale sector. Modification of technology towards labour intensive and cost effective production without compromising the quality to remain internationally competitive.

# CHAPTER X

## INDUSTRIAL SICKNESS

### Causes of Sickness

### Preventive Measures

# Industrial Sickness

Survival of the fittest and weeding out of inefficient industrial unit is a natural process. Industrial sickness and mortality are a world-wide phenomenon. In the fast changing economic and industrial environment a large number of new firms emerge and some of them disappear some of the existing units become sick and recover, while some other sick units die on account of being unable to face and adjust to the changing environment like changes in technology, consumer tastes, pricing policy, competition with large and medium scale industries etc. The question of industrial sickness does not arise in socialistic economy since the entire economic operators is controlled and regulated by the states. Even in market economies if this appearance of non-competitive units is sporadical, it does not pause any problem but when it become endemic and epidemic the problem arises especially in a country like India the problem of industrial sickness cannot be left to market forces because of their adverse repercussion on the economy as a whole Indian industries in general and SSI in particular have been developed in a protected and regularity environment, sickness, assumes additional dimension. Example some SSIs may survive mainly on account of protec-

tion concession and subsidies and tend to fall sick or die as soon as these are withdrawn, In fact, firms which have been established and have grown in such an environment may not sometime even be conscious of their weak position or incipient sickness at least in the early years of their growth. By the time the sickness is discovered by the firms and creates two-fold problem. The funds provided to these units by the commercial banks and financial institution are blocked and assets created by the units become non-functional and uneconomic .

The second dimension of the problem is increasing demand from risk units for further concession subsides and a rehabilitation package which may have the potential damage of prolonging the sickness through artificial stimulation, and of also creating a vested interest in remaining sick, About all it is not an easy task to distinguish between different facets and phases of sickness (e.g.temporary and prolonged sickness, closures and mortality) and identify internal and external factors

The rapid growth of SSIs in the sixties and the seventies, sickness has emerged as a major problem, It started engaging the attention of the RBI as well as of the central and state government from the letter half of the seventies within the SSI sector not only the SIDO units but also units belonging to village industries, artisan type units and enterprises promoted under various

employment promotion programme (e.g. SEEVY,SEPUP,IRDP etc.) were found to be sick, and are included under the category of sick units. In 1981, about 25,000 SSIs were sick, within a period of four years the number of risk units grew more than four and half times reaching 1.18 lakhs sick SSIs by 1985. Between 1985 and 1988 this number double to 2.41 lakhs. Thus, sickness become a problem of a serious concern. In 1989 the RBI made certain changes in the information reporting system of banks. Earlier banks include all activities confirming to the NIC classification manufactured by, processsing or preservation as SSI activity and included very small loans who were given loans under SEEVY, SEPUP,IRDP to rural association and village industries. The inclusion of the latter swelled the number of sick accounts. Presumably a large number of such accounts belonged to loan 'melas' (festivals) and populist employment promotion scheme in which loans were granted without propers appraisal mainly with a view to achieving target. As a result of a revision in the reporting system, the number of sick SSI units in September 1989 came down to 1.86 lakhs unit.

As at the end of march, 1997 were 2,35,32 lakhs units which were sick (SSI), 1998 number of sick units came down to 2,21,536 due to Government policies programmers and incentives but at the end of march, 1999 there were 3.06 lakhs sick units. These units were those who obtained loan from banks. An amount of

Rs. 4,313 crore were blocked in these unit, of these only 18,692 units were considered potentially viable by the bank with their outstanding bank credit amounting to Rs. 377 crore. The banks had identified 271,193 units with outstanding bank credit amount to Rs. 3,746 crore as non-viable Rehabilitation of sick units is costly proposition . It involves Rescheduling of post overdues with concession on interest amount due, additional credit for modernization and technology and upgradation and provision for fresh working capital. At present the state level inter-institutional committee is the only mechanism for rehabilitation of potentially sick SSIs

Industrial sickness is growing at an annual rate of about 28 per cent and 13 per cent respectively in terms of the number of units and outstanding amount of bank credit, Almost every third or fourth small sector unit in the medium and large sector in sick or dying. The growth of industrial sickness in India. Although there has been a considerable progress in Small Scale Sector (SSS), sickness is all pervasive, rampant and growing at our alarming rate. It has become an endemic disease in this sector is disproportionate dimensions. But sickness in small scale units has to be treated differently from that of large ones.It is basically the problem of increasing the competitive strength and viability of the small units.

Industrial sickness adversely affects the moral of entrepreneurs,banks,financial institution, other creditors. General public and government authorities along with the building up of vicious cycle in the economy.India with limited capital and skills,however,cannot easily afford its production and revenue may lead to noticeable socio-economic consequences.Therefore,sickness is a matter of serious concern since the SSS is a vital segment of Indian industrial economy.

## Concept And Definition Of Industrial Sickness

Sickness is a relative term which is easy to understand but difficult to define. However,in a common sense a sick industry is one which is not healthy. A healthy unit is one which earn a reasonable returns on capital employed and which builds up reserves after providing a reasonable depreciation. Different agencies have defined industrial sickness differantly.Some important definitions of Industrial sickness are gives as follows:-

### According to the Reserve Bank of India

- A sick unit is one which incur cash loses for one year and, in a judgement of bank it is likely to continue to incur cash loser for the current years as well as for the following years;

- The unit has an imbalance in its financial structure such as current ratio of less than 1:1 and worsening debt equity ratio ,i.e. the

ratio of total outside liabilities to the net worth.

- When the cumulative loses exceed capital And reserve.

Thus the emphasis in the Reserve Bank of India definition of sickness is based on profitability, liquidity and solvency the definition of sick small scale units under the Reserve Bank of India instructions followed in September 1989 is as follows :-

"A small scale industrial unit should be considered as sick, if it has,at the end of any accounting year, accumulates losses equal to or exceeding fifty percent of its peak net worth in the immediately preceeding five accounting years." The some definition hold good for tiny sector also.

The sick Industrial companies (special provision) Act,(SICA),1985 defines a sick industry as "an industrial company (being a company registered for not less than 7 yeras),Which has at the end of any financial year accumulated loses equal to or exceeding its entire net worth and has also suffered cash losses in such financial years immediately preceeding such financial years."

The SICA has made distinction between actual sickness and potential or incipient sickness.

**Actual sickness**

erosion of net worth by 50 percent or more Units being closed for

a total period of six months and more during the last years,default in payment of loan installments.

**Incipient sickness**

Capacity utilization in less than 50 per cent of the highest achieved during the preceding 5 years.

According to **State Financial Corporation** (SFC) "any unit which fails to pay three consecutive installments (half yearly) of interest and/or principal is sick"

The study team of **State Bank Of India** (SBI) ,1975 in its report on small scale industries advances define the sick unit as "one which fails to generate as internal surplus on a continuing bases and depends on its survival upon frequent infusion of external funds". It in evident from the above definition that the criteria of cash loss,in one sense or another, represents the common elements underlying above all definitions of industrial sickness given by deferent agencies. The concept of industrial sickness is thus viewed from financial angle.The reason is not difficult to seek.The facts remains that the performance of the unit in terms of production,marketing, etc. are ultimately reflected on the financial performance of the unit. Beside this,the financial result of the units are easily seen,understood and calculated also. It is clear from the above definition that industrial sickness does not occur suddenly in the like history of an industrial unit. In fact it is a gradual process with distinct

Healthy Unit
Cash profit+
Net Working Capital+
Net worth+

→

Tending towards sickness
Cash Profit+
Net Working Capital+
Net Worth+

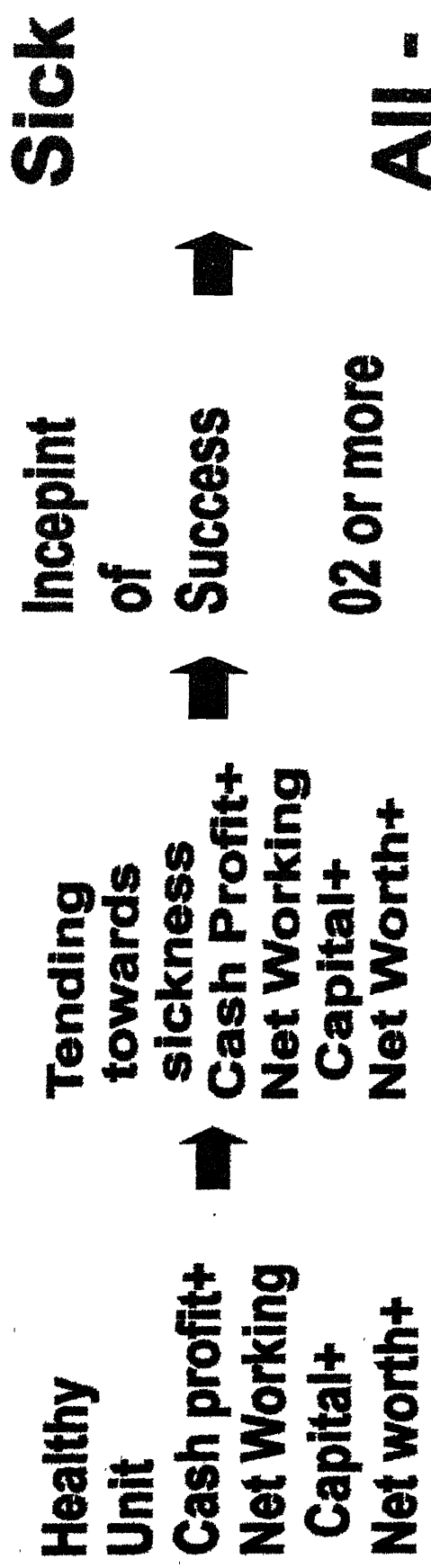
→

Incepint of Success

02 or more

→

Sick

All -

stage taking from 5 to 7 years to corrode the health of the unit beyond cure. It state with the downtrends in the industry whose continuation leads to setting in of industrial sickness.The process of industrial sickness can be presented in different way Bidani and Mitra put this process of industrial sickness in the following manners .

**Normal limits**

Functional areas viz,production,marketing,finance and personal are normal and efficient - Generating profits, current ratio is more than one.Net worth is positive.Debt,equity ratio is satisfactory

**Tending Towards sickness**

Intial operations in some of functional areas mentioned above. Decline in profit during last year. Losses anticipated in the current year.

**Incipient sickness**

Deterioration in the above functional areas continues. Cash losses incurred in the last year are expected in current year. Deterioration anticipated in current year although current ratio in more than one during last year, detorioration anticipated in debt equity ratio during current year.

**Sickness**

Unit functional area have become inefficient,cash losses incurred

in the last year expected in current and next year,current ratio is less than one and debt equity ratio is worsening.

**Signals Of Sickness**

As in other areas process of industrial sickness takes time.In the beginning of its failure certain signs of sickness who otherwise termed signals come as warning and it is important to recognize them and counteract them timely to reduce chances and cost evolving industrial sickness. There are many such warning signals but some important once are listed below-

- Decline in capacity utilization.
- Shortages of liquid funds to meet short term financial obligations.
- Inventories in excessive quantities.
- frequent break downs in plants and equipments
- Decline in quality of product manufactured or services rendered.
- Non-submission of data to Banks and financial institutions.
- Irregularities in maintaining Bank accounts.
- Delay or default in the payment of statutory dues such as provident funds,salestax,excise duty employers state

insurance etc.

- Decline in technical efficiency
- Frequent turn over of personnels in the industry.

## Causes Of Sickness

The causes of sickness differ from industry to industry and from unit to unit.They may be classified into external and internal. In fact, it is an ultimate result of the cumulative effect of many factor / causes working simultaneously

(i) External or exogenous causes

(ii) Internal or indigenous cause

### External Causes

The external causes which are beyond the control of the industry usually affect the industry group as a whole.There may be several external factor causing a unit sick and which way vary from time to time for industry to industry and even from one point of time to another for the same industry.The important external factors causing sickness include the following :-

- Government policies and programme and control
- Shortage of raw material power transport and skilled labours

- Proper marketing channel.
- Shortage of financial resources
- Natural calamities like flood and drought
- Frequent industrial strikes and lockouts

**Internal Factors**

Internal cause are those which are within the control of the unit.These causes arise due to some internal deficiencies in various functional areas like finance,production,marketing and personnel.Many studies reveal that the major cause of sickness in the managerial in competence. Following are the main\major causes of industrial sickness studies in detailed :-

- Lace of managerial competence .
- Inadequacy of finance.
- Shortage of raw material .
- Change in technology
- Marketing
- Government controls and Policies.

Tiwari committee reports on industrial sickness produced the following results.

In an American study, it was found that external factors may have been mainly responsible for only 10per cent of corporate decline. Internal causes of decline, on the other hand accounted for about 70 percent of decline (the remaining 20 per cent decline were caused by a mix of external and Internal factors) An RBI study estimate that nearly 2/3rd of cases of sickness arise from in appropriate management including faulty choice of product, technology / scale.

**Lack of Managerial Components**

The most important cause for the ailment of an industrial enterprises in the small sector is attributed to lack of managerial competence. Many new entrants do not possess the requisite qualification training and experience in the field of manufacturing, organization and running of unit. The problem become more acute with the implementation of the self employment schemes for educated unemployed youth. They enter in the fields of SSIs due to finance given by the bank and many incentives and subsidies they have neither motivation, nor training nor risk taking capacity. It has been also seen that some person enter in this field because they have no employment when they get employment they leave the unit without a second thought as they have no stakes with the unit.

About 60 percent of the SSIs, are proprietorship unit. The corporate units are family concern registered as private limited companies having two or three members who are close relatives or friends. These

setup are only extended shadows of the proprietary forms and management is run in these companies like private satropy. As the companies do not have an organized structure they are unable to attract high quality professional and suffer from high employee turnover. The chief executive should generally believe in team work and should induct professional in the board of directs and in management.

Failure to retain good manager, failure to maintain repayment schedule for term loans, poor, debt collecting mechanism obselence of liquidity to day-to -day expenses for want of proper financial control measures are various facets of managerial inefficiency and as the chief executive is not in a position to attend to these aspects of management this inefficiency result ultimately in sickness of the unit itself.

**Inadequacy Of Finance**

Shortage of finance has been identified as one of the most importance causes of sickness among small scale units. Many enter the field with inappropriate financial structure and meagre resources with their poor equity base they are not able to attract the attention of creditors and investors. Very often poor equity base of small scale sector has been identified as the cause of the sickness in this sector as the same affects the operation of small units. Though the government has extended a number of incentive for the growth of this sector and financial institution like SFCs and bank have been provided increasing quantum of finance, still finance seen to be the scarce factor for many units which

become sick.

Although financial institution are working very hard and very liberal credit policies. Yet they unable to reach the target fixed for, For example the bank have provided credit to Rs. 80 crore to khadi and village industries in 1984-85 against the targeted amount of Rs. 150crore. This indicate the inadequacy of credit flow to the SSIs. Shortage of working capital on the one hand and delay in the disbursement of credit on the other hand are acting as impediments for the effective functioning of these units ultimately leading the sickness .**Shortage Of Raw Material**

Another major problem of the small scale industries is the shortage and irregular supply of raw materials which act as an obstacle for the fuller utilization of the capacity. Some time the small units and the large scale industries use the same raw materials. Large scale industries due to lost of cash purchase the raw material at higher prices. But small scale sector due to non-availability of cash can not purchase the same raw material at higher prices results in the sickness of SSI.

While some units suffer from the inadequacy of raw material most of the units find it difficult to market their products. Even though there is considerable demand for the products produced by the small scale units these units have to sell away their products to the large selling houses at low prices due to lack of proper channel. Large units sell the same products at higher price affixing their trade marks.

**Change In Technology**

Due to increase in Research and development activities undertaken by industries in the advanced countries, technological changes of far reading importance are taking place rapidly and SSI find it difficult to keep up with these changes. Large scale and medium scale unit keep pace with these changes. As results quality and quantity of their product increase which attract the consumers. Product produced by the SSIs are unable to increase the scale due to inferior quality. High prices results in the sickness of the industry.

Although this rapidly changing technology in certain industries in developed countries like USA, Japan, UK and West Germany have often forced them to vacate certain areas of production in favour of developing countries where the cost of labour is less. But these has not been any marked transfer of technology upgradation in the small scale sector in foreign collaboration have not bothered to upgrade the technology of small or medium sector units.

Government is also not interested due to fear in upgrading the technology through automation which may result in reduction of labour required Since employment is one of the basic objectives for growth of small-scale industries in India, any proposal to induct modern technology which would ultimately result in loss of employment,is not likely to be received with favour.

**Marketing**

Marketing is the important factor causing sickness in small scale industries small scale industries are unable to market their product in systemic way. SSIs in India are mostly one man shows and treated as family business, there is lack of professional marketing in such units. So there is need for scientific marketing method and have therefore organized their own marketing networks or regional and natiǒnal basis SSIs have no marketing channels. Although government has taking step to market the products of SSIs. But few of them are successful only large scale industries due to abundant of funds advertise their products but SSIs due to scarce resources fail to incur advertising expenses result in less sales, less production, less utilization of capacity cause death of the units.

SSI have a limited number of customer and limited number of products. They are unable to change the products according to consumer preferences Therefore their products does not stand for long time with the new product produced by large scale industries. Although there are many problem following are the major marketing problem.

- Poor sales realisation
- Defective price policy
- Booking of large order at fixed prices in an inflationary market.

- Lack of feed back and research activities.
- Lack of knowledge of marketing Technique.
- Lack of proper marketing channel
- Lack of advertising facility .
- Surplus Inventory

**Government Controls And Policies**

Government has been making policies to improve SSIs since independence. He is successful in source but fail in others. Government control on SSIs makes the dumps. They are not free to work due to excessive control of Government The expansion of SSIs sector till now has been policy driven raising assets limit, increasing the reservation and providing concession and subsidies have contributed enormous SSI, but many of them turning sick. If some are prosperous it is not due to Government control and policies but due to the dynamism of owner , so it is time that policy-driven measure are replaced by more forward-looking and entrepreneurial measures.

SSIs always works under stress due to inspection officer who can challan their industries if they are not satisfied after survey . They are compelled to do what is decided while setting the industries. They can not change anything according to the changing business environment which cause lesser sales / production lead to sickness.

A part from the lack of effective co-ordination among various support organization set up for the promotion and development of these is considered as another serious lapse. It may be noted that the benefits derived from district industries centre are not in commensurate with the expenditure involved by them. This is mainly attributed to lack of coordination between DICs and other institution providing financial and technical help to the small scale units. There are many factors which are government related and are the cause of sickness these include tax burden of the unit, especially import duties, excise duties and sales tax, legal restriction on the units expansion/diversification (as with FERA and MRTP companies) frequent changes in government policies affecting the unit liberal imports that compete with the units products the government or its agencies going back on its promise made to the unit (such as promised prices performances to joint sector units) poor law and order situation, political interference in the units affairs unhelpful government machine (e.g. in supplying power or in cleaning a project).

**Preventive Measures**

Over the year's many measures have been initiated by the government to tackle this problem. Many institution have been set up to guide and help the entrepreneurs to eliminate sickness at all stages But the paradox of the situation is that sickness in growing to distressing proportion. Despite the measures taken by the government the problem is growing and sickness is becoming acute as years passes . The mag-

nitude of sickness in the SSI is staggering what is worse is the number of sick units and outstanding bank credit have been steadily increasing in recent time. A developing country like India can not afford to keep its productive assets idle for too long.

RBI have conducted studies to know the viability of sickness in 1990-91 It indicates that 84 per cent of the large sick firms for which viabilities studies were conducted were considered to be potentially viable though only 10per cent of the small units were so considered. These figure provide some idea about the potential for reducing sickness. The potential may be ever greater. If effective steps can be taken to prevent sickness in the first place, the incidence of sickness could be potentially lowered even more.

Following are the important measures suggested to prevent from sickness :

- The Government should make suitable steps for monitoring and detecting industrial sickness at an early stage. Industrial sickness specially in SSI is increasing day by day affecting the Indian economy. Although government has made many scheme and policy to overcome this problem. But result is not satisfactory due to incompetence in managing core sector, excessive protection, to domestic units and controlling structure that give rise to corruption and obsolete the natural objectives. It is necessary to change incompetency of management so that SSI can work in peaceful atmosphere.

- Government has passed the Sick Industrial Act with the objective of carrying out early detection of sickness in an sick small scale industrial unit and then to evolve a package of measures to remove uncertainly about the working of SSI. Sick unit it would be the policy of government to revive only those sick units which are potentially viable. There is no need to use fund for removing the sickness of non-viable units.

- To prevent weak industrial units becoming sick, the RBI has advised banks to take necessary remedial measure in respect of industrial units at the stage of 50per cent erosion of their net worth. Such unit, have been termed as 'weak under SICA.An industrial unit is termed as 'weak' if at the end of any accounting year, it has

(i) accumulated losses equal to or exceeding 50per cent of its peak networth in the preceeding five accounting year .

(ii) a current ratio of less than 1:1 and

(iii) Suffered a cash loss in the immediately preceding year.

The viability status of sick units surveyed shows that percentage of SSI sick unit as much more than the non-SSI sick units

To remove the industrial sickness it is necessary to make the attention of financial institution and government towards industrial sickness. At present the attitude of three different sets of a unit manage-

ment, financial institution and labour do not converge, as they view to problem of industrial sickness quite differently . Management seeks freedom to close the unit if it feels it is no more viable. Financial institution think that whatever can be salvaged should be salvaged. Labour view is that in the event of the closers of the unit, they will lose job provident fund and other benefit, therefore the unit should continue production. Thus, all the three drag in different directions. But, if this diverse view points could be properly integrated, their approach could integrated and their interest could also be covered, the unit can be salvaged in the best interest of all three.

It is found that the Rehabilitation programmes governed for the sick units are often carried out in haphazard manner. It measures only financial matters such as rescheduling of debts, sanction, if additional term loans for installation of new machinery, enhancement of working capital limit etc.. However, other problems like managerial marketing power and raw material are equally important which remain unattended to in the rehabilitation programme the need is therefore, to provide for managerial efficiency marketability of products adequate availability of power and raw material in the rehabilitation programmes

- Many industry die due to delay in remedial action. In order to arrest sickness it is essential for financial institution to review the account of SSI periodically to identify those units which are becoming sick or are prone to sickness these institutions should also be directed to

provide information on sickness to the agencies like BIFR implementing the rehabilitation programme to facilitate them to take appropriate action.

- To rehabilitation a sick unit, the programme should be finalized quickly and implemented speedily. Instances are many to suggest that any delay in these two matters aggravates the position and revival becomes a distant goal . 'Need-based funds should released in full so that the unit may be able to operate the break even point. So that unit may stop incurring loss and additional working funds may also be wiped out to meet such losses.

- Many entrepreneurs are not aware about the government relief and concessional programme for sickbut viable unit. So they are unable to take remedial step with the help and facilities provided by Government As a result their unit become sick because preferences measures not taken at time. It is essential to first trained and educate the entrepreneurs before passing their project.

- Majority of sick unit die in the second or first year of their existence, so it is necessary for the government to make a programme of monitoring and nursing them during infancy is very essential so that misuse of funds for purpose other than specified and the factors leading to low utilization can be examined and quick remedial action should be taken

## Government Schemes For Sick Small Scale Units

Government has framed various schemes with a view to reviving and rehabilitating the sick. Following are the main scheme provided by government and RBI

- Promoters Contribution
- Margin Money Scheme
- Rehabilitation Scheme of RBI
- Package of Relief and Concessions
- Interest Rates
- Excise Relief in this Case of Sick Units

## Promoters Contribution

promoters contribution towards the rehabilitation assistance may be fixed at minimum 10per cent of the additional longterm requirement under the percentage,in the case of tiny sector units and at 20per cent for the other units.At least 50per cent of this contribution should be brought immediately and balance within 6 months. It would be a condition precedent that promoters would bring in their contribution stipulated within time frame for arriving at promoters contribution the monetary value of the sacrifices from banks,financial institution and government may taken into account in addition to longterm requirement of funds under

the rehabilitation package

### Margin Money Scheme

This scheme is started to reduce the incidence among the small scale units and to ensure greatest utilization of capacity installed . The Central Govt. started this scheme for the revival of viable sick small scale units which can supplement the various efforts of the state Govts,the RBI commercial banks and other institution in this regards .The margin money was sanctioned to small scale units subject to a minimum loan of Rs. 1,000 and a maximum to Rs. 20,000 per units.In 1987 quantum of assistance increased from Rs.20,000 to Rs. 50,000 per unit.As the scheme in aimed at supplementing the efforts of the state Government and financial institutions the amount was limited to 50per cent of the total margin money loan sanctioned by the state government.

### Rehabilitation Scheme of RBI

A small scale industry is considered sick if it has at the and of any accounting year,accumulated losses equal to or exceeding 50per cent of its peak,net worth in the immediately preceeding five accounting years.In the case of tiny units,a unit is considered as such if it satisfied the above said definition..However it is difficult in such units to get financial particulars a unit may be considered as if it is defaults continuosly for a period of one years,in the payment of interest or installments of princi-

pal and there are persistent irregularities in the operation of its credit limit with the bank.Units which are no longer in existence and are not traceable shall be treated separately from sick units.

**Package of Reliefs and Concessions**

In February,1987 the RBI issued certain broad parameter for grant of reliefs and concessions by banks as part of the packaged evolved for the rehabilitation of potentially viable sick units.The viability of any unit would depend on the units ability to continue to service its payment obligations including the post restrictions debts in accordance with the guidelines of the RBI the emphasis of the rehabilitation effort in the case of SSI unit will have to be an adequate relief measures and their speedy applications.Bank should ordinarily take a decision on the viability or otherwise of a unit identified as sick,within a period of 3 months The finalisation of the nursing programme should be completed with a period of 3 months from the date of decision.Assistance from agencies / Govt department may be necessary in areas like raw material supply,power marketing,etc.For undertaking the nursing programme in some cases.

Where within a years or two after commencement of implementation of package,it has become necessary to work out fresh package for the purpose of extending reliefs or concession or determining viability ,the period of 5 years shall be reckoned with reference to the date of implementation of the original package only.Where these is a change in

the management as part of fresh package,the period may reckoned with reference to the date of revised package .

**Interest Rates**

The parameters on interest rates and promoters contribution in respect of sick small scale industrial units under rehabilitation packages are as under :-

- Working Capital-1.5per cent below the prevailing fixed / minimal lending rate, whenever applicable.

- Funded interest term loan (FITL)-No interest on funded interest.

**Working Capital Term Loan (WCTL)**

- Between 1.5per cent and 3per cent below the prevailing fixed/minimum lending rate,whichever is applicable .

- Existing term loan-Interest on existing term loan may be reduced,where considered necessary by not more than 3per cent,in case of tiny/decentralised sector units and by not more than 2per cent,in other cases below the document rate.

- Contigency loan assistance same as concessional rate allowed for working capital assistance.

***Fresh Rehabilitation Term loan (FRTL)**

Funds for start up expenses interest changes at a rate 1.5per cent below the prevailing fixed/minimum lending rate or as prescribed by SIDBI/NABARD, where reference assistance in obtained from it for the purpose.

The sick industries companies.(special provision) Act,1985,was enacted which addresses itself to the rehabilitation of sick undertaking which are engaged in the manufacture of items included in the schedule/of the industries (Development and Regulation)Act,1951 (65 of 1951),except ship and other vessels in one or more factories by any company but does not includes:-

- an ancillary industrial undertaking as defined in clause (aa) of section 3 of the IDR Act,1951 (65 of 1951)

- a small scale industrial undertaking as defined in clause (i)of the aforesaid section 3. All other industrial undertaking which are outside the preview of the IDR Act are governed by the Rehabilitation schemes of the RBI.

**Excise Relief in the case of Sick Units**

The Government of India have formulated a scheme for excise relief for sick Industrial units with a view to helping them to expeditiously regain their viability by providing excise loan through the designated financial institution.Who will be acting as an agent of the central government.The scheme come into force on 17th october,1989,and shall

apply to any industrial company whose accumulated losses at the end of any financial year have resulted in the erosion of 50 percent or more of maximum net worth during the immediately preceding five financial years.

The scheme shall confine itself to industrial undertaking pertaining to a scheduled industry carried on in one or more factories by any company but does not include an ancillary industrial undertaking as defined is section 3(aa) of the industries (Development and Regulation) Act form for excise relief in given in annexure no.

## Government Policy On Industrial Sickness

Mr. George fernandes,former union minister of Industries made first policy statement in parliament on 15th May,1978 .The policy made clear that where managements are either willing or unable to perform their role the financial institutions and the government should intervene to fulfil their larger social responsibilities of ensuring efficient use of national resource.The policy also recognised that the revival of a sick industrial undertaking could not be the responsibility of any single agency,but the burden should be shared by all concerned including central Government ,the state Government,the labours,the financial institutions and banks,managment and the share holders. The policy statement,1978,announced that in respect of sickness in small scale sector the Government shall be guided by the following instrustions

- sick units in the small scale sector will be given special attention.State finance corporations and commercial Banks will be asked to device a scheme for rehabilitation of sick industries in the small scale sector and assistance given by them for revival of such units will be eligible for refinancing by the Industrial reconstruction corporation of India or Industrial Development Bank of India at a concessional rate of interest.

- Government and other purchasers of the products of the small scale units will be directed to settle dues of small scale units on priority basis and commercial banks will be asked to ensure that credit give to a large scale units for working capital banks will be asked to ensure that credit given to a large scale units for working capital is applied first towards meeting dues of small scale industries(suppliers)

- In order to protect the investment of technical entrepreneurs in cases,where small scale units promoted by them are forced to close down for reasons beyond the control of entrepreneurs the possibility of evolving a suitable scheme of risk insurance for safeguarding the interest of the entrepreneurs will be examined

The policy statement of may 1978, was received in the light of experience gained in its implementation during these three years.In October 1981 Government required guidelines for sick industrial policy.New guidelines have been laid down by central ministries/state Government and financial Institutions.The administrative ministries were

assigned the specific responsibility for prevention and remedial action.The administrative ministries and would appoint committees which would review the extent of sickness and policy measures required to tackle the problem,but also analyse the problems of individual units showing signs of sickness.

# CHAPTER XI

## PROBLEMS AND SUGGESTIVE MEASURES

## Problem And Suggestive Measures

Unfortunately such a vital sector is not free from problems despite, so much protection and encouragement, weaknesses, interest in the small scale programmes are persisting in nature to quote from the seventh plan "The growth and development of this sector has been constrained by several factors including technological obsolescence, inadequate and irregular supply of raw materials, lack of organized marketing channels imperfect knowledge of market conditions, unorganized nature of operations. Inadequate available of credit, constraint of infrastructure facilities including power etc., and deficient managerial and technological skills. There has been lack of effective co-ordination among the various support organization set up over the period for the promotion and development of these industries. Quality consciousness has not been generated to the desired level despite the various measures taken in this regard". The small scale sector has now come of age but does not enjoy the robustness of health that goes with youth, even in high-value or high-tech areas, financing a small scale unit continues to be a risky proposi-

tion. There are large, sickness rampant and mortality rate very high. It is rather distressing to note that one out of every ten units is said to be sick today there are many problems which are cutting the roots of small industry.

## Management Deficiencies

'Management' as a term is usually applied for big business but it is equally relevant for the small business. Most of the SSI due to their small size can not afford to employ any managerial staff. In a typical small scale unit, an entrepreneur owner takes all the decision and undertake managerial function's by himself. The owner entrepreneurs manager makes an SSI a one-man show. He has to manage even routine matters include procurement of raw materials, arranging labour, conducting banking transactions, supervising production and selling products etc. The management information system is poor. The entrepreneur-manager at the end of the day is left with little or no time to plan ahead, analyse business and monitor it well. The problems are tackled as and when they come up it may be expected that the entrepreneur would understand the business well before entering into it. However project reports or business plans are hardly made a blue print for the future when they are made, it is merely to satisfy the institutional requirement of banks and financial institutions to avail

of their loaning facilities. Market survey is not usually done so as to understand the potential of the product and draw a marketing strategy for the business accordingly. This leads to costly on-the-job experimental learning which may lead to less than optimal use of resources or even to sickness of the unit of the mistakes are of critical nature. The RBI, in one of it studies, on the causes of SSI sickness, identified deficient management as the single most important factor attributing sickness. Ninety percent of the entrepreneurs did not undergo any kind of formal training before setting up their business.

Mr. H.N. Pathak, a management consultant report in his article that entrepreneur often make the mistake of basing their calculation at full capacity utilization which is not what turns out in reality" "most entrepreneur either do not keep business records or do not use them as important management information tool. During survey due to lack of proper record it is difficult to get authentic business record.*

## Tardy Labour Laws

Small scale entrepreneur had to maintain many registers and many forms and notice if his unit was registered under the Factories Act. A small factory owner found this difficult. The entrepreneur complained that the labour laws imposed a financial burden on them without taking into consideration the vital ques-

tion whether the industry had the capacity to bear it They argued that small entrepreneur could not afford to provide separate urinals ,latrines and spittoons and got the premises of the unit white-washed every year. They argued that bonus which was originally a voluntary payment had become a statutory obligation.

Number of staff in government institutions had not increased while the number of factories had increased and the Act had been extended to cover smalls units, the number of inspectors and other officers had not increased much.Vacancies had not been filled for years. The staff accept that it was not possible for then to visit the units frequently. Lack of proper conveyance facilities also was a handicap to them.

## Scope And Area of SSI

Scope of small industry in India is narrow than other countries in the world. The word small Industry primarily refers to manufacturing activity. But in countries like Japan U.K and USA small industry also include wholesale and retail trading .In India,at present service units located only in rural areas are eligible to be classified.' Small Industry.Such service units which are required in semi-urban and urban area are not in the spectrum of small Industry" These types of restriction is the major problem of the small industry.

There are number of economic activities which are worth

while in rural area but are not now classified as small industry. These include cultivation of mushrooms, growing fingerlings in ponds and rice fields, raising rabbits fur, poultry and dairy products. There is no reason why such occupations, which have a great relevance in an agrarian country like India should not be classified as 'small Industry' and be eligible for the benefits provided to such industry scope of such activities is far greater than the more conventional 'smoke-stacked Industry' which cause pollution need raw material from outside and generate only a limited number of jobs.

## Procedural Problem

Small entrepreneurs in their actual operation have been experiencing administrative and procedural problems as one of the bottle necks at different stages. The problem arises from the part that despite being free from the licencing they have to confirm to and observe a number of regulatory arts/measures of the central, state and local authorities.

Secondly administrative procedures in getting various facilities like bank loans, raw material, Industrial space, sheds power are time consuming. In the wake of liberalization of import policy, the procedural formalities in import of raw material, an important constraint in the production, have eared but the problems continue in other areas. Administrative bottleneck even affect tiny and

Managing pre breakeven stage if SSI, H.N. Pathak, The economic Times, 1992

smaller units and those located in remote and backward areas due to lack of resources and contacts sixty percent of the entre-preneurs were ignorant that there were agencies ( such as D4S.4D,NSIC,TCOs,DIC and many others) to help them.Twenty percent of them were under the impressions that these agencies catered only to large and medium industries.

An SSI enterprise has to obtain more than 24 clearances from various department, the actual number depending upon the nature of production activity,location and size of the unit.

The potential entrepreneur becomes discouraged with the inefficient and often concept way in which these approved being completed. In terms of time it takes almost a year to clear all the formalities before the production can commence Even after com-mencement of production entrepreneur is subject to a series of legislation under the guise of "labour welfare", which make him under harassment the Employees. Provident fund Act the indus-trial dispute Act, each of there has rationale but cumulatively they impose a heavy burden on the small sector units who find it diffi-cult to bear .one writer has quoted "India is a country with a third class economy burdened with a first class labour legislation" It seems perfect in respect of small scale sector. The plethora of legislation imposes a double burden on small entrepreneur. It makes it obligatory for him to do a mass of paper work and re-

turns, which it not done makes him liable to punishment and on the other hand, subjects him to harassment by order of minor functionaries Hence the time that should be spent on more important matters connected to production and marketing is spent in the fruitless job filing up official returns or entertaining "official" visitors.

According to NCAER survey (1996) many SSIs complained about the government formalities which they have to face. The procedure for registration, licensing, incentives/subsidies etc. required submission of the plethora of documents. A major irritant to small entrepreneur is 'Inspector Raj' arising out of the bulk of rules and regulations and acts that they have to follow . One or other inspector visits small units, sometimes even more than one, in a day to check on the compliance of rules and regulations this system not only gives rise to corruption but also affect the performance of small units.

## Marketing Problem

Marketing the product produced is an important and vital aspect of industry, and it is in this sphere that small industry has a pronounced weakness. Marketing has all along been a major problem for small scale enterprises, although its intensity varies from industry to industry and enterprise to enterprise. During the last decade one-third of all the registered SSEs are closed due

to competition in domestic markets. The perceived problem of finance, usually in the form of liquidity crisis, may to extend be related to marketing as the primary cause. These problems may arise due to delayed payment from customers, provisions of in-adequate bank credit coming in the way of timely execution of supply order or rejection of goods supplied etc. as is also brought out by a FICCI study on marketing problems of SSI in 1989.

For a new entrepreneur, the starting point is the identification of a suitable product which has the market potential and good growth prospects. Only then he can translate his product into profits. The chosen product should also by synergic with the capabilities of entrepreneur. To select such a product an entrepreneur need proper guidance. But it is found by the many training institutions and bankers, is that a large number of employers do not choose the right products . Another reason is the most banks and financial institutions do not pay adequate attention to evaluation of marketing aspects of the projects, mainly due to there lack of marketing expertise. There is a psychological resistance among the upper income segments of the market and many a large scale units towards product produced by a small scale industry due to their perceived poor quality and safety hazard , this can be explained in the following ways :-

- The poor quality of the product may also be associ-

ated with the use of substandard machinery and raw material and lack of funds for product improvement.

- It could also be attributed to a large segments of consumers who prefer low priced goods even if it is at the cost of quality and safety products. Many SSI prefer to cater to this segment of the market.

- There is also a lack of entrepreneurial spirit and sense of compliancy

- Small-scale enterprises operate in varying market territories. Survey data shows that 30 per cent of them market their product in local market, 23 per cent in the state and 49 per cent at national and international levels.

- Size of the enterprise also influence the area of their operation. As the size of enterprise increase the percentage of selling products in local market decrease.

The industry wise analysis shows that there are large variation in the distribution of units by the area of sale. Among readymade garment units they have either localized operations or have a strong presence in international markets, 42 per cent of the garment units are selling in the international markets. Paints and vanish market 20 per cent of them sell products in local market. Agricultural equipments enterprise sell their products at na-

tional level(10 per cent), other sell their products in international market and local market.

The hand tools, plastic, electronic goods and autopart units are fairly evenly spread out in all the four types of geographically spread out markets, viz local, state, national and international.

One of the major problem is that small entrepreneurs have, is that they lack perspective of goods marketing approach, to market there product it is essential that entrepreneurs should use various marketing tool like pricing, packaging, branding, distribution and promotion should be used in the case of small enterprises the modern techniques of marketing do not seem to receive due attention. Market information system and accounting procedure used by the SSI are not appropriate and needed attention to analyze, build a strategy implement it, and monitor the operations to get feedback information and take corrective action wherever and whenever felt necessary.

Low prices generally derived on cost plus formula and provision of credit to buyers remain the two most important instrument to promote sales. Although SSIs have lower excise duties than large scale industries, less overhead prices than large industries. But in terms of the other marketing attributes like quality of products, after sales services, advertising, products availability and packaging, small units fall behind considerably when

compared to large units.

Small entrepreneurs, to overcome this problem will have to strengthen their marketing mix by competing with large units in non-process elements of marketing as well.

## Inadequacy Of Finance

Finance forms the life blood of industry and one of the perennial problems of small industry is the uneasy availability of finance both for fixed asset and for working capital. Many developing country have an inadequate banking system even where it is developed it is geared primarily to trading operations and in some cases, lending to large industry. Small industry inspite of its significant contribution to the total production, gets a less than proportionally share of the total volume of credit available : This is specially in outside the metropolitan areas where, till recently the banking system was hardly present.

Procedural formalities in getting a loan are so cumbersome that small units are often scared away by the appraised procedure and the long delay experienced in getting a loan. The result is that few of them like to deal with a bank: they would rather rely on friends and relatives or even the money lender than the local bank. If properly organized the banking system can be very beneficial to small industry banks requires financial prudence and

discipline which is vital, even if tire some, to the success of small industry. Only bank is the warning signal of danger, who may be blissfully ignorant of the dangers ahead of 'approaching sickness'

Although government has given many subsidies and fiscal/ taxation relief to small entrepreneur which have an important role to play in the healthy growth of small industry while undue preference to small industry in exemptions from taxes may not be desirable, it has to be recognized that a uniform tax policy for both large and small may, in practice, be an unintended disadvantage, It is the wisdom of fiscal policy makers to balance the disadvantage which small size imposes with a pattern of rebates and exemptions which can provide suitable incentive to small industry. But it is necessary that the formulation of such incentives is to ensure that they can be easily availed of, in fact, reach the small units for whom they are intended. Delay in getting finance should be reduced which will provide tangible relief to small entrepreneur.

Despite the policy of priority and liberalized credit, inadequate finance is the most important problem being faced by SSI in the second SSI census (1987-88) also finance ranked first among the major problems of SSI. It may be mentioned that in the first SSI census (1972), it was second to shortage of raw material, over the years, therefore, inadequacy of finance seems to

have worsened.

Provision of finance has a direct bearing on the performance and growth of SSEs. During the survey more than 25 per cent of the units reporting lower capacity utilizations attributed it partly to shortage of working capital. The percentage of units reporting it as a reason for low capacity utilization was significantly higher in electronics and garments and plaints & varnish. Similarly a much higher percentage of units in the lowest slab of capital employed reported shortage of working capital among the reason for low capacity utilizations as compared to unit in other slabs.

## Entrepreneurial Attitude

An entrepreneur is a decision maker whose decisions are governed by subjective and objectives criteria. The subjective part is governed by individual's beliefs influenced by society, culture environment and expression leading to formation of attitudes that are not easy to change. The objective criteria govern rational decision making, using sound techniques, systems, procedures and required information, the attitude of entrepreneurs affect all the steps of entrepreneurial activation such as planning and establishment to maintenance of query and marketing of goods. In an-NCAER survey it was found the most of entrepreneurs depending on self and family for decision making, majority choose a product line or aware of demand prospects of

that product line or aware of demand prospects of that product line an objective analysis and proper prospecting that was not usually done. It was also found that only less than one-tenth of the entrepreneurs or their employees were under gone any proper training prior to setting up the unit. More than 30 percent of entrepreneurs did not have any quality mark for their product and they also did not felt any need for the same.

Information seeking an important entrepreneurial quality is also lacking in our country which is vital for decision making, Joint family system in India discouraged independence of judgement openness to new ideas, spirit of self reliance and decision making. Educational factors was not found to be so important.

Motivational factors constitute the inner urge present in an individual which continuously demand from him to do something new and unique as also to perform better than others. Fortunately the risk taking ability and self reliance seems to have improved in 2nd & 3rd generations after independence and that is reflecting in industry also.

### Infrastructural Bottlenecks

Lack of adequate infrastructural facilities result in serious impediments to industrial growth which on no amount of subsidies or concessions can overcome particularly so in case of in-

dustrializing backward areas. No doubt, there has been tremendous increase in infrastructural facilities such as industrial space, roads, communication, power, water and banking facilities but they are still inadequate and where they are provided badly maintained, in general infrastructure problems is more acute in smaller towns and backward areas.

More than half of the units are suffering from inadequate industrial space especially in garment industry, water supply is the main problem in detergent and plastic industry. Size wise, the industrial space is troubling 70 per cent of the tiny units of slab of less than 2 lakhs, the water supply is main constraint of large units of slabs of 10-35 lakh. Inadequate power shedding is common for all industries while effluent disposal problem increase with size of industries thus it is clear that each segment of infrastructure needs to be treated separately in relation to size of the units and individual industry.

For rapid SSI development the Government started the industrial estate programme in 1957. However, industrial estate has not been uniform in various state and union territories. Programme being successful in big cities but not successful in small towns and rural areas.

As the Estimate Committee of the Lok Sabha pointed out "the committee regret to note that some of the industrial estates

have come to be established in wrong place because of the states being guided by non-economic considerations. The committee felt that to avoid such wrong selection of site and consequent infrastructure expenditure, there should be proper co-ordination in this matter between the center the states. Although started as central government scheme the industrial estate programme is now being pushed by the state government. The programme is now focussed at small towns/mundies particularly in backward areas.

The common denominator among all size industries is power. The areas where power is not available or short of supply for long, remained backward or short of supply for long remained backward industrially also in states like U.P. Haryana, or Karnataka it is difficult to get power connection as compared to states like Maharashtra and Gujrat, additionally during cropping season electricity is diverted to agriculture and industries are streamed for want of power. It is not the gap between electricity load required and supply which bother the SSIs but it is its quality 1-2 survey load shedding affected almost 60 per cent of SSIs.

## Supply of Raw Materials

Inadequate access and availability of raw materials has been a major problem affecting the growth and performance of SSIs. Inequalities in the distribution and import of raw materials

was one of the biggest problem of SSIs during 4 decades after independence. After commencing of liberalized import policy in 1988-91 eared the situation to fill large gap between demand and supply of raw materials. As a result of liberalization package, control on distribution and prices of several raw materials including steel was removed in last 10 years. By allowing free import and lowering of import duties the era of acute shortage of raw materials seems to be over to a large extend. Even those raw materials in short supply are not scarce and available at premium of 25-20 per cent. However, the short supply is still considered as major problem by about one third of SSIs but it varies greatly in magnitude among industries.

The other part of the problem is faulty distribution system. SSI have to purchase raw material from large entrepreneurs as they need their materials in relatively smaller quantities. Some of the upcoming entrepreneurs are importing raw materials from indigenous or foreign sources directly. In adequacy of transport system is also one component of the problem..

In Japan the present units takes the responsibility of providing raw materials, technical assistance and even credit of the ancillary units. This has helped them to produce goods at comparatively lower cost, making them internationally competitive. Such a system has not evolved in India. Inspite of the efforts made

by the government to promote ancillarisation

## Low Level Of Technology

India's SSI is characterized by all levels of technology. The range is between the enterprises using quite modern technology and the enterprises still carrying on with outdated obsolete technology while, the former constitutes just the top of a pyramid, a large majority of the units belong to the latter. Although, technological upgradation is being stressed by the government, the achievement there too, has been moderate this can be gauged by the process of manufacture used, investment in plant and machinery, adoption of quality marketing image of the products at market place.

The level of technology may depend upon the process of manufactures used. Some units in SSI are operated manually, some used semi-automatic process & some use automatic process there is considerable industry-wise variation. The type of process used is closely related to the size of units, smaller the units more the use of manual process.

For upgradation of technology many of the units which are manually operated or are using semi-automatic process require change over to better technique of production. Modernization would, of course, need higher and better skill to operate, maintain

and run modern plant facilities.

One of the most frequent criticism of small industry in India in that it does not pay adequate attention to quality. The quality of product produced by SSI have always been a problem. The units catering to the requirements of large - scale enterprises are faced with the problem of rejection as the parts and component supplied do not conform to specification. It is also true that. SSI cannot afford expensive for adoption much of the industrial R&D in developed countries in conducted in laboratories funded by industry. The SSI in India lacks R&D facilities and in many units even adequate facilities for testing of products and raw materials have not been set up. SSI, unless the turnover of the units in very high, cannot afford technical staff and equipment for R&D purposes. SSI have meagre resources at their command and they cannot afford to adopt modern technology and to change over the improved equipment and machinery. In order to encourage units to overcome the back log of modernizations and to adopt improved and updated technology and methods of production. IDBI and SIDBI has implemented a scheme of refinance for modernization of SSI. The scheme includes the replacement of renovation of plant and machinery or acquisition of balancing equipment for fuller and more effective utilization of installed capacity.

During the discussion with small entrepreneurs it was observed that many of them are generally apathetic to change. The psychology is typically old fashioned. They would like to work on their old machines rather than undergo the bother of replacing them with improved ones. Neither SSI are aware of the developments in the technology that have taken over the years nor have they access to it. The dissemination of technical information among entrepreneur in very poor. Information system of SSI weak and inadequate

Small industry have the capacity to generate or absorb innovations, it has been pointed out in that many of the inventions of the century have indeed come from independent inventors and small business. The Report of the US Department of commerce listing these innovation observes: 'We are persuaded that a unique cost benefit opportunity exists in the provision of incentive aimed at encouraging independent investors and small technologically based business. The cost of special incentive to these in likely to be low; the benefit are likely to be high.'

Small industry also suffer from lack of adequate testing facilities, which is increasingly expensive, and has only limited access to testing facilities. There is also a problem due to lack of Standardization or, where they exist, such standards are pegged to unduly high level of performance which are often unrealistic

and unattainable. As a result of all these factors, small industry entrepreneurs are often forced to operate at low technology levels and there is lack of quality control in this production processes.

There is need to device a mechanism for small units to become dynamic in a technological sense and made 'quality conscious' which, in turn, helps in the marketing of their products.

In Japan a New Technique Development corporation to help the industrial utilizations of research findings. The corporation farms out the problems to suitable research institutions, some of them, scattered all over the country. Many of them are funded by regional governments and look at the possibility of the under utilization of the natural resources of the region. There is and also analytical section to conduct tests on industrial waste, oil, soap, wool, mineral, food and ceramic materials. Korea has also set up a similar agency- Korea Technology Advancement Corporation (K-TAC)- which, along with the Korea Institute of Science and Technology and other institutes, makes available fully engineered industrial process for small and medium industries.

In India, technical counselling and guidance to small industry is provided by the Small Industry Development Organizations through the Small Industry Service institute, branch institute, extension centres and affiliated institutes. Such guidance although helping the small entrepreneurs, But their efforts are not

giving better result. So the concerned national laboratory or a public sector undertaking may be associated with the purchase of know- how form abroad which then be unpackaged and made available to small industry. So that SSI can also modernize their technology to compete with large scale industries.

Government has set a working group in 1984 by the Ministry of Industry under the chairmanship of Dr. S. M. Patil, former chairman of HMT to revised the present system of collection of technical information, review the existing linkage between promotional agencies, R & D institution and industry the committee, noting the wide diversity small industry product mix, expressed the view that technological upgradation is a must of small industries are to survive and prosper.

It also expressed the view that upgradation and modernization do not, necessarily imply the introduction of automatic machinery but what was needed was a process of selective mechanization which would not displace labour but improve productivity.

The establishment of national design and development centres to design and test products;

The establishment of and apex financial organization to fund technological innovations;

- Availability of finance for modernization;

- Raising of the capital ceiling limits form small industry;

- Setting up of an agency for the import of technology;

- Provision of suitable incentives to large units to transfer technology to small units;

Support to ' ancillarisation' as a tool for technology transfer, and Training in new techniques and skills.

Many of the above recommendations are now being implemented; the Small Industry Development Fund, set up in 1986, is expected to provide finance for innovation and modernization. A Technology Development Wing has been recommended to be set up in SIDO and the SISIs at metropolitan centres to be upgraded as national technology centres. The ceiling of small industry was raised from Rs. 25 lakhs to Rs. 35 lakhs and of the ancillaries from Rs. 35 lakhs to Rs. 45 lakhs. An Integrated Training Centre is being set up at Nilokheri and ancillarisation made more effective by building it into the licensing system.

## Problem in Restructuring and strengthening of Institutional Framework

Over a period of four decades India has developed one of the most elaborate and comprehensive institutional networks of SSI in the developing world. This network covers a very wide range of services. Both the Central and State Governments have set up an outstretched institutional structure which seems to have become unyieldy, rigid and inflexible. Lack of coordination and direction in their programmes and activities, and more importantly rapid decline in their effectiveness and creditability.

It may also be mentioned that economic and industrial environment in 1990s is redically different from 1960s and 1970s. The role of teh Governement (whether Central or State) is likely Ito be increasingly reduced and modified in the coming years in industry and business.

Central Level: The institutional infrastructure at teh Central level has its roots in teh framework proposed by the Ford foundation Team in 1954 when promotional institutions for SSI in India werevirtually non-existent. This framework after having played a very significant role in the SSI development has become outmoted and is unable to meet the growing requirements of SSEs.

## Discrimantory Purchase Programme

The programme of preference to SSI under Government purchase programme was introduced even prior to product reservation. The

intention was to assist SSI in marketing their products by assurng them a marketing outlet in those areas in which they possess production capability and competence or have potential to do so. The scheme by providing an assured outlet does serve useful purpose but over a priod, as in many other programmes, vested intersts develop. The benefits have generally gone to bigger among the small units, mainly located in big cities an towns. Teh system provides ample opportunities for corruption. With the expansion of list of item for exclusive purchase from SSI, the policy of price preference (areas of in which SSI, and LSI are allowed to compete) hs been relegated to the background and is hardly of andy significance.

The policy of price preference is discriminatory in the sense that it is not available to all the SSI products. There is intense competition among a large number of SSEs adn prices quoted by small suppliers to win orders are often very low adn in the process quality is the main casualty. In fact products of SSEs supplied to the Govenment Departments under purchses preference are notorious for their poor quality and standard. In any case it has ceased tobe of any significant benefit ot SSEs in general.

## Problem of Under-Utilization of Capacity

There are studies that clearly bring out the gross under-utilization of installed capacities on small-scale industires. According to Arun Ghoshon the basis of All India Census of Small-Scale Industries, 1972,

the percentage utilization of capacity was only 47 in mechanical engineering industries, 50 in electrical equipment, 58 in automobile ancillary industries, 55 in leather products and only 29 in plastic products. On an average , we can safely say that 50 to 40 percent of capacity was not utilized in small-scale units.

The very integral to the problems of under-utilization of capacity is power problem faced by small-scale industries. In short, there are two aspects to the problem: one, power supply is not always available to the small units on the mere asking , and whenever it is available, it rationed out , limited to a few hours in a day. Second, unlike large industries, the small-scale industries cannot afford to go in for alternatives; like installing own thermal units, because these involve heavy costs. Since small units are weak in economic front, they have to manage as best it can within their available mearge means.

## Inadequate Dispersal

Largely because of the above-mentioned difficulties and policy-weaknesses, the regional dispersal of small-scale units recently established has not been appeciable. Their location has largely been confined to already developed states, and around big cities. For example of the registered small scale units upto 1976 as much as 67 percent were set up in industrially developed states along Delhi. These units accounted for 75 percent of employment. Within these states, there has been concentration of units in a few areas like metropolitan/large cities,

or industrial complexes.

Thus it is evident that small and cottage industries face difficulties at every stage of their activities. Whether it is buying materials for prodiction, organising production, selling produce in market or sustaining themselves between the production and marketing time, they are put to a number of difficulties. No wonder then that their products are small in quantity and shoddy in quality. This in turn keeps producers poor and their industries backward.

## Problem of Power

The common denominator among all size industries is power. The areas where is not available or short of supply for long, remained backward or short of supply for long remained backward industrially also in states like U.P., Haryana, or Karnatka it is difficult to get power connection as compared to states like Maharashtra and Gujrat, additionally during cropping season electricity is diverted to agriculture and industries are starved for want of power. It is not the gap between electricity load required and supply which bother the SSIs but it is its quality.load shedding affected almost 60 percent of SSIs. While there are some industry wise variation the high discuss the major problems being faced by these industries in India.

The problem of shortage of power has become so widespread that for the last few years it has been among the most glaring and telling

problems of the economy. But its impact is decidel fatal on small producers ; large industries manage to escape somehow. There are two aspects to the problem, one, power supply is not always, everywhere , available to the small industry on the mere asking, and wherever it is available , it is rationed out, limited to a few hours in a day. It means that if a small unit can manage to take advantage of supply at fixed hours, well and good, otherwise, it will have to let its capacity go unutilised, thus adding to cost, Secondary, unlike large industries the SSIs cannot afford to go in for alternatives, like installing own thermal units, because of heavy costs involved. A small unit has to manage as best as it can within the available means.

## Export Difficulties

The systematic evolution of the small sector in India with its economics of operation particularly in the case of labour-intensive or batch-process items has contributed in a large measure to the gradual expansion and divergence of the country's export pattern. Some of the items if India's small-scale industrial units that figure more prominently on shopping lists the world over, including even sophisticated countries, are auto ancillaries and parts, bicycle components, electrical appliances and accessories, electronic components, wire-nettings, machinery, spectacle frames, fountain pens, umbrella handles, imitation jewellery, leather goods, sports goods handlooms, food products, chemicals, dyes, cosmetic and toileteries, and other chemical products. But inspite of all

this progress , the SSI sector still faces problems in exports which make it difficult for it to undertake exports in an organized and appreciable manner. So far very little organized effort seems to have been made by this sector towards organising specific export-oriented industries.

## Legal Frame-work

A number of countries, such as U.S.A., Japan, Canada and Republic of Korea have enacted a separate law with a view to providing a well defined framework for the growth and development of SSI. For example, in Japan, the provision of adequate legal backing to various measures and programmes has been the cornerstone of industrial policy towards SMI. Besides defining of different categories of small and medium industries in the Act, SME Basic Law of Japan pinpoints the Government responsibilities for supporting and encouraging appropriate forms of SME development. There are several areas in which these responsibilities are clearly defined. These include modernisation or SMEs in desingnated fields, improvement of technology, rationalisation of management, rectification of disadvantages and special problem, procurement, finance, sub-contracting, stimulation of demand, management and labour relationship, employees welfare, and securing sufficient labour force. The small and Medium Industries Basic Law of Japan has been periodically revised keeping in view changes in industrial structure, requirements, potential and problems of SMEs.

In U.S.A. in order to maintain a viable, dynamic and progressive

role of small enterprises the U.S. congress has been providing consistent and adequate legislative and statutory support to the small Business Administration (SBA). The SBA operates under a whole host of statutes but there are three acts which have in the particular moulded the SBA into its present form, namely, the small Business Act of 1953, the Small Business Investment Act of 1958, and Equal Opportunity act of 1964. It was set up un 1953 with the enactment of the Small Business Act. Drawing support from this Act, the SBA has developed comprehensive assistance programme covering finance, technology, management and other areas of concern to small business.

It is ironical that despite continuous support to SSI and establishment of a vast network of promotional institutions, there is no basic law on SSI in India. The industries development and regulation act, 1951 (ID and R Act) did not specifically cover SSI, and it is only by implication that the SSS has been treated as a residuary sector. Consequently, there has been no specific legislative and statutory support to various Ministries/Departments of the central and state Governments (such as Industry, Finance, commerce, enviroment etc. ). Besides , lack of adequate legal and statutory support, the prevailing system lacks transparency and consistency. Periodic changes in definition, list of purchases, and other programmes and measures have resulted in inadequate and half-hearted implementation of various measures, on the one hand and multi-faceted problems and shortfalls leading to confusion and credibility gap among entrepreneurs and development

instutations, on the other.

## Issues Related to Definition

The definition of what is a small scale unit/enterprise for the purpose of promotional assistance adn protection from LSI has been an important element in the strategy for development of the SSS. Our study of structure of SSI has revealed existence of highly skewed and dual structure. The co-existence of traditional industries, tiny units, and bigger SSEs has lead to creation of a highly geratogenous VSI sector. An important implication of the definition is that benefits of policies of reservation and other concessions and facilities are uniformly applicable to and availed of by all the categories of SSEs in the VSI sector. But in practice it is the bigger SSEs which are deriving a disproportionately larger share of benefits as compared to tiny units. Another major fall out of the definition along with the policy of protective measures has been to induce SSEs to remain small , and shifted their vertical growth and graduation into medium and large enterprises. This is also an important reason for stunted growth of medium enterprises in Indian industary.

Tiny units differ from the bigger SSEs in management, technology, and marketing and even their problems and requirements. Most of studies, including the present one, have revealed that bigger SSEs have been major beneficiaries of various government sponsored programmes for SSI development. These two sub-sectors-tiny and the non-tiny SSEs- require different types of support measure in order to

ensure their healthy growth.

It, therefore, seems logical to us to make non-tiny SSEs a part of a new category of small and medium industires (SMI), it may be mentioned that a similar approach has been adopted in Japan, Republic of Korea and several other countries. As the new category of SMI will have ample scope to expand there will be no need for separate definitions of ancillary and export oriented SSUs. the SMI sector will need infrastructural facilities but concessions, subsidies, reservation need not to be extended to them . They should stand on their own.

The traditional industries for historical reasons and on socio-economic and welfare consideration may still require preferential treatment for some more time. The tiny SSI sector (along with small business and industry related services) which are kind to them but possess considerable potential in existing as well as in new areas (like electronics, computer, bio-technology etc.) may also be accorded similar facilities. Both these segments of SVI or rather tiny and village industries (TVI) have not recieve due attention of the Government assistance and extension programmes. It is hoped that by having SMI and TVI, the latter will get focused attention. For them subsidies and concessions may be xx.

## Suggestive Measures

In view of the difficulties and problems analysed it is necessary

to devise ways and strategic means for getting rid of these difficulties and problems. It is with this end in view we suggest in the following paragraphs, some of the important steps that can be taken to meet the challanges in the coming situation:-

## Human Traits Should Be Developed

These industries also confer certain valuable political and social benefits. They can help in awadening the powerful dormant forces among masses for use in constructive activities. The freedom of work, self-reliance, self-confidence, enthusiasm to achieve, and all such traits of a healthy nation can be built around the material activities performed in these industries. These industries will be helpful in the perservation of the inherited skill of our artisans which would otherwise languish and saved from the mechanical, monotonous and robot-like life associated with big industrial cities. These non-economic considerations cannot be concretised into cold statistics, but they speak volumes for themselves. These in fact are the essence of life.

## Labour laws should be modified

To overcome the labour problem labour law should be flexible so that it can compete with China, as labour law is flexible in China. Government should liberalise the laws. However, there is a strong opposition from labour union against any proposal to liberalise laws the growth of employment generation in the organized sector has been virtually

stagnent at 0.04 percent in 1999. While there was nil growth of employment in the public sector during the year it was a shade better than the negative growth last year when it fell 0.09 percent even in the private sector, the growth was just 0.11 percent as compared to 1.51 three years ago. Although the survey is silent on the subject the poor growth in job creation reflects a general slow-down that has affected the economy in recent months. the laws could not be enforced unless the persons concerned worked conscientiously.Most of the labour laws applied to factories thus workers in non-factory units should also covered so that they are also entitled to benefits under, Employees State Insurance Act, the Provident Fund Act, The Punjab Housing Act, Industrial Employment Act.

## Administrative Procedure Should Be Simplified

The procedure for registration should be simpli`fied. The form for registration should be simple and short. Granting of automatic registration to members of industry associations may also be examined.

- Prior approval should only be required in case of hazardous or dangerous processes.

-Regulation should be enforced by exception; a specified negative list method should be evolved

- A large number of returns and registers need to be abolished; a system of core returns should be adopted

- Many regulatory laws have been in vague for 40 years or more. Some of these laws need to be re-examined and revealed, if necessary.

-A dialogue need to be initiated on the scope and coverage of labour related laws. With economic growth and tremendous increase in the number of small units, it is possible to enlarge the scope of most labour laws to apply to establishments of more than 25 workers.

The Government should immediately amend the Factory Act. Units employing less than 25 markers using power and 50 workers not using power should be covered by it. For non-factory SSUs a separate legislation should be enacted in consultation with industry associations and welfare conditions for workers working in SSEs.

## Selecting Appropriate Industries

The first and foremost thing is that those small-scale and cottage industries be selected for development which held out promise of further growth and which can in the long-run stand on their own feet. There are many products whose production can be efficiently organised on a small-scale. For example, products which require for their production traditional skill and hard work, such as artistic handicrafts, ivory products, jewellery etc., goods which are meant for industrial use e.g., processed cotton, vegetable oils, components of certain machines etc; goods whose demand is small, local, irregular or goods which have to cater to special

needs or which are required in a special design; products which involve such operations as assembly, mixing and finishing operations like footwear, knitwear, etc., products which gain weight and bulk in the process of production such as bricks, plough, wooden and metal furniture, etc., are most suitable for the small-scale sector. Industries producing such products should be selected and helped accordingly.

## Establishment Of Industrial Co-operatives

For the development of small scale and cottage industries, industrial coorperatives can render immense help. Most of the people engaged in these industries have to face innumerable difficulties regarding finance, production, marketing etc. Most of these difficulties have arisen because these producers generally work on an individual basis. If they organise themselves into cooperatives, many of the difficulties in respect of credit, purchase of raw materials, marketing, etc., will automatically disappear.

The Central and State Governments can do much in the promotion of industrial cooperatives. They can also promote these institutions by arranging the sale of the products of industrial cooperatives abroad. Yet it needs to be emphasised that dependence on government alone is neither desirable, nor helpful in the furtherance of the cause of industrial co-operative. Improvement in production methods and implements. For the development of these industries, it is essential that their production methods are modernised and that they use better types of implements.

The establishment of research institutions to evolve technology is one important step which needs to be taken. It is also necessary that the usefulness and profitabitity of the use of improved methods and technology be demonstrated to the producers so that they have a direct knowledge of their successful application. Industrial fairs and exhibitions can play a very useful role in this regard. Alongside, it is necessary to arrange the supply of such equipment at cheap prices and on easy installments so that producers are induced to use new methods. Arrangements should also be made for repair and maintenance of these implements. Otherwise, producers may not be prepared to go in for such innovations.

## Producing Goods of Superior Quality and New Designs

It is also essential that the goods produced should be quality goods and of newest design. The tendency often seen among craftsmen to care least for the quality and most for the fraudulent practices of adulteration, misrepersentation, etc, needs to be curbed drastically. This is the only way to ensure acceptability of their goods in domestic and foreign markets. This is the only way to ensure acceptability of their goods in domestic and foreign markets. This alone can provide a sure and secure basis for expanding the market for these goods.

Here the role of government is quite significant. It can ensure standardisation of certain products guarantee the quality of these goods

and promote the sale of certified goods of quality. Besides, enactment of laws providing for strict punishment for people producing adulterated and sub-standard goods can also act as a deterrent against these evil practices.

## Provision For Industrial Education And Training

Another essential thing to do is to provide industrial education and training to people working in these industries. In order that these people are able to take advantage of scientific knowledge in the field of industries and adopt modern practices in respect of various production activities, it is of utmost importance that adequate facilities for industrial education and training exist for them.

## Improvement In Marketing

Marketing of goods produced by small and cottage industries has to be improved vastly. Without adequate marketing facilities, these industries cannot sustain themselves. Partly, the production of good quality goods of new designs will help in deeping up sales . But there is much more to be done in this respect. One is that the conditions and rules government the marketing of these goods be properly designed to ensure that producers of quality goods get fair prices for them and that their goods get a ready market. Two, foreign markets should be assessed and tapped. These producers should be made aware of the nature of foreign

demands to ensure should be analysed from the point of view of emerging trends in demand so that the pattern of production can be made to conform to the market. Four, the government can reserve a proportion of its purchases to be made from the small industrial sector. Five, co-operative marketing should be promoted to get over the handicaps of the small individual producer.

With regard to the implementation of these measures, it is obvious that these producers cannot do much individually. The government and institutions like co-operatives can do a great deal in the furtherance of the aim of improving markets and the marketing of products of small producers.

## Demarcating Spheres of Large And Small Industries

Once we concede the rationale of small and cottage industries in the national economy, it becomes imperative that we provide a secure berth to it. In this connection the guiding principle should be to provide a clearly demarcated field of production to these industries. In the context of this approach the following steps become necessary: One is that a certain number of products selected along the lines suggested above should be exclusively reserved for these industries. This would eliminate competition from teh large-scale sector. Two in case of products where of large-scale capacity should be imposed, provided the products happen to be those which are ultimately to be produced by small industries.

## Proper Legal Frame Work

The need for enacting the basic law on small industry has been repeatedly stressed by the small industry. Although various committees appointed by the Government have recommended enactment of such a legislation, nothing has been done so far. In the wake of policy of liberalisation and structural reforms it has become all the more necessary to have a unified legal frame work, covering various aspects of SSI development including the role of the Central and State Governments and organisations under them, associations of industries and enunciation of support measures. In order to give right signals to industry, trade, and various, departments and institutions of the Central and State Governments in the fast changing economic and industrial scenario, such a law, it is recommended, should be enacted at an early date. It should broadly include:

- Objectives of the SSI development

- Definition of SSI

- Specific elements of SSI development programmes

- Areas of and guidelines for protective supprot

- Ancilliary development and sub-contracting

- Institutional mechanism at the Central, State and district levels and their respective roles and functions

- Training of personnel

- Changes and special provisions in other acts (like the Partnership Act under which liability of partner os unlimited and need to made limited to encourage greater investment in SSEs and improve their organizations and management). Other acts for SSI (e.g. the act relating to timely payments to small industry) and important executive orders may be made a part of the comprehensive Act.

## Purchase Preference Policy Should Be Improved

Policy of price preference for the product of the SSI should be imediatly withdraw the exclusive or partial purchase of specified products from the SSS should be phased out in a period large number of products predominantly being produced be SSI will continue to be purchased from this sector even without reservation. The purchase preference as a part of marketing support may be given only ground of welfare considerations.

In countries like U.S. A. and Japan SSEs are actively assisted in supplying to Govemment but the emphasis is more on promotional aspect in the form of technical guidance, information on tenders and supplies to be made, guarantee regarding capability of SSI to execute the orders etc. Associations of small industry and business also play a vital role in this area. We would therefore, recommended that the whole programme and role of institutions there in may be reoriented in order to make it more effective and useful both for the small-scale suppliers and the buying

organizations. The buyers should not have the feeling that they are being forced to purchase low quality and sub-standard products due to the Government policy of preference to SSI as ultimately it affects the credibility and image of SSI. Relationship between SSI and LSI should be encouraged. In the wake of the policy of structural reforms and liberalisation this trend of developing mutual relationship between SSI and LSI should be encouraged to spread more widely. The emphasis should change from reservation and compulsion to development of long term beneficial contractual relationship.

A separate definition of ancilliary units does not seem to be necessary . It binds both the small scale supplier and the parent company and as experience has shown it has not served the purpose . On the other hand, sub-contracting and job work are hindered by this definition. The aim of the SSI policy should be to encourage increasing sub-contracting and job work among all the SSEs along with ancillarisation.

LSI should be encouraged to SSI by devising a system of short duration fiscal and financial concessions. In the wake of the policy of liberalisation and structural reforms, while there may be no reservation of products, parts and components, a list of items (based on techno-economic characteristics) may be perpared which LSI may vacate in favour of SSI.

Associations of industries may be entrusted with the task of developing a model code of conduct between the buyers and the sellers,

providing information service and counselling and also serve as a forum for arbitration to resolve problems or disputes. LSI on their part should provide support to sub-contractors in technology development, loaning of machnery and offering technical guidence testing facilities , etc. They should also lend the services of their sister organizations like marketing companies and export houses etc.

There is ample scope for sub-contracting and sharing of manufacturing operations under the fast emerging flexible manufacturing system(FMS). A small and medium unit may assemble and maket a product produced by the tiny units or it may procure orders from LSI and further sub-contract them in part or full to small tiny units and ensure their quality and delivery ot LSI and prompt payment and fair price to the tiny units. The various aspects of ancillarisation the tiny units. The various aspects of ancillarisation sub-contracting, etc, and thereby pave the way for development of healthy relationship between the large, medium and small sectors.

**Linkages with Agriculture**

There is considerable scope for developing effective linkages between agriculture and SSI. In fact in an agricultural country like India they are complementary to each other. The traditional industries have already their roots in agricultrue. Some of the traditional industries like wood working, forest based industries,textiles , food products and repair services may be developed as modern small industry. The agro-surpluses

and fast rising income and consumer demand provide further opportunities for development of SSI.

**Taxation Relief should be enhanced**

Excise concession is also one of the earliest protective measures for SSI. The intention is to make them competitive for SSI. The intention is to make them competitive with LSI products. While it is not possible to precisely estimate the revenue loss to exchequer on account of this relief unconfirmed reports place the loss at around Rs. 300 crores per annum. While in early years there might have been some justification to provide this relief its perpetuation has more than any other protective created avested interest for SSUs in remaining small. It has adversely affected the process of modernisation and technological upgradation of the sector and is thus counter-productive. The concession has not only been misused by SSEs but also by some LSI who have entered into some sort of a tie-up with SSEs (e.g., purchase of brand names). The excise exemption in the present form seems to be acting against the long-term interests of the SSS besides causing loss to teh exchequer. Futher the scheme has led to the phenomenon of under-reporting ,of turnover, corruption and other malpractices. The major benefficiaries of this scheme, as in case of other such scheme, belong the creamy layer of small units.

It is ,therefore felt that the central excise exemption should be encourage establishment of new units, excise exemption should be given

to them on a tapering off basis say 100% in the first year of production, 75% in the second year, 50% in the third year and 25% in the fourth year. There after the unit should cease to get any excise exemption.

The long term gains to the sector from modernisation and technological upgradation leading to vertical growth would far weight the ghourt-term advantage of this concession. In fact we would suggest that soem excise concessions( on a time bound basis) may be extended to units which undertake such programmes.

The industry associations instead of making usual representations to the Government for extending the limits for excise exemption amy submit specifice proposals (supported by facts) for excise relief to such enterprises.

**Promotion of Export Marketing**

Export promotion is primary the responsibility of Ministry of Commerce. It is therefore suggesdted that a standing committee on Export Promotion of SSI under the Charimanship of Minister/Secretary and with DC(SSI) as its member-secretary and representives of the concerned organisations of central and state governments, and industry associations as its members may be formed to constantly review the export performance of SSI, suggest measures for further development os SSI exports and provide guidelines for bith export production and export marketing. Such a committee will also provide a forum for resolving

policy issues which have a bearing on export oriented organizations. This committee should also form panels of export oriented industries (e.g. readymade garments, electronic components, handlooms, automobile components, etc.) to prepare a detailed export plan for SSIs in consultation with the concerned developmental agencies,EPCs and industry association and selected exporters.

Identification of export oriented units by SISIs branch SISIs and DICs in major thrust and extreme focus areas indentified by the ministry of commerce for export promotion; and identification of selected clusters of SSI for export promotion;

- Provision of intensive technological and managerial guidance to identified units;

- Provide assistance to them in getting financial and other assistance for modernisation and export marketing;

- linking them with export houses and trading companies;

- helping them in international sub-contracting;

- assisting them forming export consortia; and

- provision of information on a continuing basis.

The Export Development centre in the SIDO, when estalished, should initiate action on the above lines.

## Inappropriate Export Marketing Services

In India there is little co-ordination between Ministries and organizations looking after production in SSI and those organising export marketing services. Quite often their priorities are different. The policy of reservation of SSI products, for example, in areas like apparel and leather has affected growth of export oriented units. There is no to and for flow of information between SISIs, DICs and export promotion concils (EPCs).

Some nucleus staff for export promotion exists only in 4 SISIs (Bombay, Calcutta, Delhi, Madras) indicating the meagre effort for export production and marketing in the SSS. Some of the State Governments have set up separate state export corporations whose efforts have borne limited fruits but their linkages with the SIDO and EPCs are weak. In brief teh efforts for export promotion are fragmented, and uncoordinated and weak so far as SSI are concerned.

Centres have been set up at locations and in fields relevant to the small-scale sector.

In China, technology development seems basically tobe conducted 'in-house' based on what is called the 'three-in-one' principle. Under this principle, every technological innvoation is done by a team of three persons consisting of a cadre, a technician and a worker. This group locates major improvements in the existing production processes and also helps factories to improve thier working. Such teams have

access to knowledge available with the Bureau of Industry at the country, city and provincial levels as well as at the research institutions. A significant aspect of technology diffusion in China is the effort taken to provide information within the plants on innovation schemes carried out inside it. Most plants have a wall newspaper where technical improvements effected in the production process of the machinery are described at some length. Workers read these posters during the lunch reccess and other spare time and acquire an overview of the entire operations of the factory.

An overall aspect of technology is the fact that in Japan there is a constant attempt at technology upgradation leading to greater mechanisation of operations, even if there is temporary dislocation of personnel. In India, there is a marked reluctance to introduce improved technology if it is likely to increase a reduction in the number of persons employed. In China, the basic view taken is to optimise resources-both human and material. The high labour intensity of operations in China stems from the belief that since manpower is the biggest asset in the country, any programme of industrial growth would necessarily have to taken into account the full utilisation of this resource. In China , employment is, therefore, a 'fall-out'-and not the primary objective-from the people of optimising resources available in the country.

## Simplification In Administrative Procedure

To overcome this problem the government has banned Inspector

of the Employment of the Employement State Insurance Corporation from visiting any unit employing less than fifty workers. It has also cleared the proposal to restrict the unit of Providand Fund Inspector to only one in a year from the four in a year. In simplification of procedure the Government has cleared the proposal to reduce the number of challans to be filled for provided fund payments to workers to one instead of five similiarly the entrepreneur would have to file only one photo state copy of the wage registered carrying detailsof PF paid to workers instead of 13 form that were required earlier neccessary institutions to field officer putting there order into effect are being issued by the ESI board and the PF board. For simplification of the procedures in the case of ESI, a four member committee has been set up. It includes MR. B.B. Duggal, member ESIC,Director Genral ESIC, Insurance and finance commissioner of ESIC. According to the committee's decision should be based on trust and envisages that factories should make a self assesment at comply of the Acts, without an inspector having to visit the premises to see if the law was being adheared to. The decision, though delayed, will provide a great relief to entrepreneur who have been constantly complaining about the harassement caused by the Government Inspectors visiting the sites.

To overcome this problem a number of State Government like Punjab,Maharashtra, U.P., and Karnataka have initiated steps

to liberalise the rules and procedures for small industries. In Karnataka the provisional registration by District Industries Centre is to be issued across the country as soon as the application is submitted and efforts are being made to reduce paper-work in other department like labour, urban development and finance etc. In pursuance of the overall policy of liberlisation government of India had set up a committee in 1991 to go into the question of simplification of rules and procedure in respect of small entrepreneur. The committee is reported to have made recommendation in regard to change in labour laws, factories Act, environmental laws, Excise laws and reorientation of rules of DICs and inspector of various, Central and State department the various recmmendation of the committee are being processed and examined in consultation with the concerned department.

## Improved Management Efficiencies

Although it will be difficult to compare the current level of management deficiencies with that the fifties or the sixties, it canbe estimated that the increased level of education, better exposure to media and better availability of information today would have made some positive impact. But the need to change has never been so urgent as it is now due to economic liberlasation measure initiated by the Government. In the sheltered, protected market,the need to be updated with information and to use mod-

ern management techniques,was probaloly never felt as severe deficiency.In the near future,small scale manager will not only have to cope up with increased competition with other SSI'but also from LSE's and imported goods. Image building product quality, packaging, marketing in niches, branding, human resource development and information seeking will have to be given due importance by the small industry managers.

Sure to media and better availability of information today wouldThe financial system in a country needs to be tuned to the needs of small industry sector: it has also to mesh with the broad policies of the government so that their impact is pronounced and visible. This include also such matters as important policies where a too liberal attitude may make it difficult for small units agianst indiscriminate improts and too rigid an attitude may make it difficult to obtain raw material and components, which are vital to ensure the good quality of the product.

Above all, what is needed is a more flexible development approach on the part of branch manager to view the problem of small industry with greaater empathy and understanding. The 'credit worthiness' of a small entrepreneur consist not in the collateral, he can produce, but his own dedication and background and the stake of his causes far more important than money-in a venture, unfortunately, progressin this regard has been limited and

many branch manager continue to exhibit the same rigid attitude

## Financial System Need To Be Tuned

The financial system in a country needs to be tuned to the needs of small industry sector: it has also to mesh with the broad policies of the government so that their impact is pronounced and visible. This include also such matters as important policies where a too liberal attitude may make it difficult for small units against indiscriminate imports and too rigid an attitude may make it difficult to obtain raw material and components, which are vital to ensure the good quality of the product.

Above all, what is needed is a more flexible development approach on the part of branch manager to view the problem of small industry with greater empathy and understanding. The 'credit worthiness' of a small entrepreneur consist not in the collateral, he can produce, but his own dedication and background and the stake of his causes far more important than money in a venture, unfortunately, progress in this regard has been limited and many branch manager continue to exhibit the same rigid attitude in dealing small industry as in past.

The system of fiscal incentive provided to small industries may be reviewed so that the enterpreneurial spirit is enhanced and risk taking is encouraged, at the same time providing relief to small units. What is needed is a taxation policy, which will re-

stor, initiative encourage entrepreneurial activity and improve the liquidity position of small business. While under protection in favour of small business. while under protection in favour of small units is not desiarable there are areas where small unit is not desirable, there are areas where small industry suffers unequality or unneccessary disabilities as a result of the present tax system which need to be corrected. small-scale industrialist, on their past ,need to be educated that money has a 'cost' and that money made too cheap, distorts the economic vialibility of the project. leading to wrong investment decisions

**Reduction in Power Problem**

While there are some industry wise variation the high magnitude of the problem is a common feature. However, the government is giving subsidy for generator set purchase to SSI to reduce this problem. Poor quality of power has adverse impact on capacity utilization and production of SSIs. Though government is providing some benifits like industrial shed spaces as subsidised rents, The huge expansion in roads, railways, power communication banking facilites helps all. During last 40 years these facilities shown tremendous expansion but as the planning commision after third plan said truly paucity of resources resulted in inadequate invstement which, in turn, resulted in the transport sector not being able to keep pace with the requirement of the economy."

### Flexible Labour Law Implementation

To overcome the labour problem labour law should be flexible so that it can compete with China,as law labour law is flexible in China.Government should liberalise the laws. However, there is a strong oposition from labour union against any proposal to liberalise laws the growth of employment generation in the organised sector has been virtually stagnant at 0.04 per cent in 1999.While there was nil growth of employment in the public sector during the year,it was a shade better than the negative growth last year when it fell 0.09 per cent Even in the private sector,the growth was just 0.11 per cent as compared to 1.51 three years ago. Although the survey is silent on the subject,the poor growth in job creation reflects a general slow-down that has affected the economy in recent months.The laws could not be enforced unless the persons concerned worked conscientiously.Most of the labour laws applied to factories thus workers in non-factory units should also covered so that they are also entitled to benefits under, Employees state insurance Act,the provident fund Act,The Punjab Housing Act,Industrial Employment Act.

This study suggest that Small Scale Industries are the seed bed for new entrepreneurs. There is no denying the fact that the small scale industries have enoromous job potentiality with low rate of investment. Being widely dispersed, these are capable of remedying the grave regional imbalances of industrial development Similarly, these industries

being under the ownership and control of the producers, themselves dispersed throughts the country, can ensure an equitable distribution of income and wealth.

Their contribution in the socio-economic transformation of developing countries can not be under estimated. In other words, they are the instruments of change, growth and diversification. It covers both the quantitative and qualitative dimensions of the development of small scale sector.

The quantitative dimensions is that there are a number of articles in the volume with the various types of peculiar problems of different small enterprises such the qualitative aspects are related to policies, issues such as regional development of backward areas, priority sectors and guidelines for new entrepreneurs and so on the objectives of this research is to evaluate the problems of small scale industries in the rural areas or semiurban areas, and their possible appropriate solutions and to assess the further scope for rural and small scale industries.

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# ANNEXURES

## ANNEXURE 1

### Scheme For Excise Relief For Weak

**Industrial Units**

The Government of India are pleased to make the following Scheme with a view to help weak industrial units to expeditiously regain their viability by providing excise loan through the designed financial institutions, who will be acting as agents of the Central Government.

**1. Short Title.**- This Scheme may be called the Scheme of Excise Relief for Weak Industrial Units.

**2. Commencement and Duration.**- It shall come into force on the 17th day of October, 1989, and remain in force till it is discontinued.

**3. Applicability.**- The Scheme shall apply to any industrial company, whose accumulated losses, as at the end of the financial year have resulted in erosion of 50% or more of its maximum net worth during the immediately preceding five financial years. The Scheme shall confine itself to industrial undertaking which means any undertaking pertaining to a scheduled industry carried on in one or more factories by any company, but does not include an ancillary industrial undertaking as defined in clause (aa) of section 3 of the Industries (Development and Regulation) Act, 1951.

**4. Definition.**- In this Scheme, unless context otherwise requires,-

*(a)* **Company** means a company as defined in section 3 of the

Companies Act, 1956, but does not include a Government Comany as defined in section 617 of the Act;

*(b)* **designated financial institution** means nay of the following in institutions, namely:-

*(i)* Industrial Development Bank of India (IDBI);

*(ii)* Industrial Finance Corporation of India (IFCI);

(iii) The Industrial Credit & Investment Corporation of India Ltd.(ICICI);

*(iv)* Industrial Reconstruction Bank of India (IRBI); and

*(v)* such other finance institution which the Central Government may specify in this behalf;

*(c)* **eligible unit** means an industrial unit to which the Scheme is applicable;

*(d)* **empowered committee** means the Committee constituted by the Central Govenment in the Department of Economic Af fairs, Ministry of Finance for the purpose of this Scheme;

*(e)* **excise loan** means the loan granted and disbursed by the Central Government under the Scheme;

*(f)* **Industrial company** means a company which owns one or more industrial undertakings;

*(h)* **rehabilitation package** means a scheme approved by a designated financial institution for ensuring long-term viability of the eligible unit which may include measures such as financial of balancing equipment reduction of pressing creditors or statutory liabilities, labour rationalisation provision of margin money for working capital, technology acquisition payments, repayment of term loans or such other measures as may be determined by the designated financial institution for the purpose of rehabiliation, moderisation or diversification;

*(i)* **scheduled industry** means any of the industries specified in the First Schedule to the Industries (Devolopment and Regulation) Act, 1951, as amended from time to time.

**5. Amount of excise loan.-** The eligible unit will be granted excise loan not exceeding 50% of the excise duty actually paid for three years subsequent to the date of approval fo the rehabiliation package by the Empowered Committe. The total amount given by way of such excise loan shall not, in any case, exceed 25% of the overall cost of the Rehabilitation package.

**6. Terms.- (1)** *Nature:* The excise loan will be secured by the assets of the company acquired pursuant to the rehabilitation package ranging *pari passu* with the charges to be created in favour of financial institutions / banks to the extent of their financial assistance to the rehabilitation package. Where no fresh asssets are created pursuant to the rehabilitation package, the excise loan will be secured by a second charge on the existing assets or any other form of security approved by the Empowered Committee.

(2) *Rate of interest*: The excise loan will be interest-free.

(3) Repayment: The excise loan shall be repayable within seven years in instalments as determined after a moratorium on three years commencing from the date of last disbursement of the excise loan.

(4) The eligible unit shall during currency of the excise loan, submit such progress reports as may be requred by the the /central Governmnent or designated financial institution about the progress in the implementation of the rehabiliation package.

**7. Procedure for sanction and disbursement of excise loan.-**

(1) the excise loan will be disbursed to the eligible units through the designated financial institution.

(2) The eligible unit, after finalisation of package, may make an application to the designated financial institution for sanction of excise loan. the designated financial institution shall process the application and forward the same with its recommendations to the Empowered Committee.

(3) On receipt of the approval for the excise loan from the Empowered Commettee, the designated financial institution shall communicate the sanction to the eligible unit.

(4) the eligible unit will be required to enter into an agreement with the designated financial institution incorporating therein such terms and conditions as may be stipulated by it for grant of excise loan.

(5) the disbursement out of the excise loan shall be mde by the designated financial institution in terms of rehabilitation package at the end of each financial year or on such frequency, as may be decided, over a period of 3 years, on compliance of the terms and conditions and on furnshing proof of payments of excise duty to the satisfaction of the designated financial institution.

**8. Right of the Central Government and Designated Financial Institution.- (1)** Every eligible unit availing of the excise loan shall furnish to the designated financial institution, a certificate in such from as may be required, indicating the manner of utilisation of the excise loan.

(2) In the event of eligible unit committing a default a payment of instalment of excise loan, if shall be liable to pay on the defaulted amount till payment, liquidated damages at a rate, which shall be equivalent to the prevailing rate of insterest for grant of term loans by the designated financial institution.

(3) Without prejudice to clause (2) above, the designated financial institution shall have the right to call upon the eligible unit to refund in one lump sum the amount of excise loan together with the liquidated damages, if any, if-

*(a)*. the eligible unit fails to employment the rehabilitation pack age and utlise the excise loan to the satisfaction of the desgnated financial institution.

*(b)* the eligible unit commits four successive defailts in repayment of instalment of excise loan;

*(c)* In the opinion of the designated financial institution, the eligible unit has failed to regain its viability, and there are no prospects of restoring the same within a reasonable time; and

*(d)* the Central Government or designated financial institution is satisfied that the excise loan has been obtained by mis-representation as to an essential fact or by furnishing false information, or if the unit goes out of production within three years after approval of rehabilitation package.

**(4)** Where an eligible unit is called upon to repay the defaulted instalments together with liquidated damages, ii any, or it has otherwise become liable to refund the outstanding excise loan under clause (3) above but it fails to pay or, as the case may be, refund the amount, the Central Government, of if so required by the Central Government, the designated financial institution, shall proceed to recover full amount from the eligible unit. operating National Equity Fund Scheme. The SIDBI along with the Government of India launched the Credit Guarantee Fund Scheme.

ANNEXURE 2

SIDBI Schemes

**Schemes Of Refinance Assistance**

**(a) Scheme for marketing organisations:**

**Eligible borrowers :** Individuals/partnership concerns/private/public limited Companies experienced in marketing village and small industries (VSI) products.

**Purpose**: For setting up new sales outlets or undertaking renovation/expansion of existing outlets for marketing VSI products.

**Norms:** Cost of project-not to exceed Rs. 25 lakhs. Down payment of at least 50% of value of goods purchased.

**(a) Scheme for setting up of industrial estated:**

**Eligible borrowers**: All forms of organisations such as public/private limited companies/partner-ships, sole proprietary municipalities SIDCs.

**Purpose**: For setting up of industrial estates for exclusive allotment of sheds/plots to SSI units.

**Norms:** Cost of project-need based.

**(b) Scheme for development maintenance and construction of roads:**

**Eligible borrowers**: Existing SSI units engaged in the activity and which have been in iperation for at least 3 years with profits in the last 2 years.

**Purose:** For acquisition of capital goods / equipment required for the activity.

**Norms:** Loan limit need based.

**Mahila udyam nidhi:**

**Eligible borrowers:** Women entrepreneurs for setting up new projects in tiny/small scale sector and rehabilitation viable sick SSI units.Existing tiny and small scale industrial units and service enterprises [tiny enterprises would include all industrial units and service industries (except road transport operators satisfying the investment ceiling prescribed for tiny enterprises undertaking expansion. modernisation technology upgradation and diversification can also be considered.

**Purpose**: To meet gap in equity.

**Norms**: Scheme operated through SFCs/twin function. SUDCs/Scheduled Commercial Banks/ Scheduled Urban C0-operative Banks.Cost fo project-not to exceed Rs. 10 lakhs. Soft loan limit 25% of cost of project subject to a maximum of Rs. 2.5 lakhs per project. Service charges-1%per annum on soft loan.

**(b) Scheme for women entrepreneurs :**

**Eligible borrowers**: Women enterpreneurs.

**Purpose:** *For setting up SSI units.*

**Norms:** The Scheme also provided for training and extension service support to the entrepreneurs.

**Refinance scheme for technology development and modernisation (RTDM)**

**Eligible borrowers**: Sole proprietorships, co-operative societies, private and public limited comanies.

**Purpose**: Assistance under the scheme wopuld be available for meeeting the expentiture on-

**(a)** purchase of capital equipment need based civil works and acquistiton of additional land;

**(b)** acquisition of technical lnow-how, hesigns, drawing and fashion forecast where relevant to specific product group.

**(c)** upgradation of process technology and products with thrust on quality improvement comparable with accept- ble domestic and international standards;

**(d)** improvement in packaging;

**(e)** cost of TQM and acquisition of ISO 8000 servise certification;

**(f)** need based additional/incremental margin money for working capital.

**Norms** : Secheme operated through all eligible primary lending institution except regional rural banks. Project outly-not to exceed Rs. 100 lakhs.Preliminary land pre-operative expenses shall not be covered as a part of the cost of the project.

**Refinance scheme for acquisition of ISO 9000 series certification by SSI unit (RISO 9000)**

**Eligible borrowers**: Existing industrial concerns in the SSI sector having a good record of past per formance and sound financial position. The concerns should-

(a) have been in operation for a period of at least four years;

(b) have earned profit and/or declared dividend during the preceding two financial years; and

(c) not be in default to institution/banks in payment of their dues.

**Purpose :** Foreign currency resource support to ADs to enable them to extend PCFC advances to small scale units.

**Norms :** LOCFC for the time being will be extended either in US$ or DM.The ADs intending to avail of LOCFC should execute prescribed agreement with SIDBI.

**Schemes Of Refinance Assistance**

**1. Project finance Schems**

***Elgible borrowers :*** *New or existing SSI concerns. They* should be, generally, at least private limited companies.

**Purpose :**

(a) for setting up new SSI units preference will be given to units with export orientation, import substitution, hi-tech and those promoted by entrepreneurs witn a good track record;

(b) : moderniation, technology upgration, diversification and expansion of existing well-run units in thw SSI sector;

(c) for setting up of small hotels and other tourism related activities as well as hospitals and nursing homes.

**Norms :** Project cost-not less than Rs. 225 lakhs and term loan and less than Rs. 150 lakhs except in (J&K, HP Bihar, MP, Orissa, WB, UP & NE States Project cost-not less than Rs. 75 lakhs).Debt % Equity ratio not to exceed 2:1

**Scheme for financing activities relating to marketing of SSI products**

**Eligible borrowers :**

1. Existing SSI units in the small scale sector with a good track record and cound financial postition are eligible for assistance under the scheme. New units could also be considered on a selective basis.

2. Specialised organisations incorporated as corporate entities and providing marketing assistance, infrastructure and supoert services assistance, infrastructure and support services to industrial concerns in the small scale sector.

**Purpose :**

1. Assistance under the scheme may be availed of for undertaking various marketing related activities such as :

- Marketing research
- R & D product upgradation and standardisation.
- Preparation of strategic marketing plan.
- Advertising, branding catalougue preparation, production of audio visual sids, etc.
- Participation in trade fairs and exhibitions, undertaking sales promotion tours, etc.
- Extablishing distribution net works including show room/retail outlet/ warehousing facilities,etc.
- Traning of personnel in activites relevant to marketing, etc.

2. For setting up new show rooms and/or renovation fo existing show rooms for marketing predominantly small scale cottage and village industry products.Such show rooms could be set up within country or abroad.

3. Development fo infrastructure like setting up of permanent exhibition centres, industrial parks like garment and softwareparks, marketing emporia, design and fashion forecasting studios, auction house (say for floriculture products) container depots and container freight stations and trade centres (within India and abroad) such infrastructural projects should largely benefit the small scale, cottage and village industries.

4. Setting up of facilities for providing marketing support to SSI units, for example, date bank libraries, internet services, etc, and assistance to facilitate setting up and expansion fo such services by service providers as may be relevant.

5. Working capital term loan requirements and bills discounting facility for service providers in respect of purchases to be made either directly from SSI units or through an intermediary engaged in sourcing such supplies.

6. Any other activity directed towards promoting the marketing

of SSI sector in domestic or international markets.

**Norms :** Amount of loan would be need based but, would not normally be below Rs. 1 milion per borrower, Debt : equity ration-not to exceed 2:1.

**Scheme of direct assistance for development of industrial infrastructure for SSI sector :**

**Eligible borrowers :** All forms of organisation such as public/ private limited companies, Registered societies/trusts, Government corporations, Corporates/co-operative entities/accredited NGOs approved by KVIC.

**Purpose :** Setting up of industrial estates/development of industrial areas including such projects found eligible under KVIC model. Strengthening of existing industrial clusters / estates by providing increased amenities for smooth working of the industrial units. Setting up of warehousing facilities for SSI products/units. Providing support services, *viz.,* common utility Centres such as convention hall trade centres, new material depart,warehousing, tool room/testing centres, housing for industrial workers, etc, any other infrastructural facilities which will benefit predominantly SSI units/entrepreneurs.

**Norms :** Cost of project-not to exceed Rs. 10 crore. Debt equity ratio-not more than 3:1.Repayment period-not exceeding 10 years including initial moratorium period up to 3 years.

**ISO 9000 Scheme**

**Eligible borrowers :** Existing industrial concerns in the SSI sector having a good record of past performance and sound financial position. The objective is to promote quality management system in SSI units with a view to strengthening their marketing and export capabilities.

**Purpose :** To meet the expenses on consultancy, documentation, audit, certification fee, equipment and calibrating instruments required for obtaining ISO 9000 certification.

**Norms :** Loan limit-need based debt equity ratio-not more than 2:1 for the borrowing concern repayment-maximum 5 years including initial moratourium up to 12 months.

**Scheme for export bills financing :**

**Eligible borrowers :** All SSI units and expoert/trading house which have been sanctioned; PCFC limits by SIDBI.

**Purpose :** To provides post shipment credit in foreign currency at internationally competitive reates of interest by discounting of usance ex-

port bills/purchase of sight.demand export bills and negotiation of bills under LCs of exporters in the small scale sector as also export / trading house sourcing their requirements for exports from the small scale sector.

**Norms :** Need based limit depending on the PCFC limits sanctioned by SIDBI Facility extended in any of convertible currencies. Presently it would be USD & Euro. Limits normally valid for one year.

**Opening of foreign letters of credits (FLCs) :**

**Eligible borrowers :** Industrial concerns in the small scale sector.

**Purpose :** To enable small scale industries to import capital equipment for new projects,expansion, diversification technology upgradation and modernisation of existing units.

**Norms :** Currency-any convertible currency. Amount-minimum USD 25,000 or equivalent; however, FLCs for lesser mamounts may be considered on case to case basis. Margin-100% or backed by a term loan sanctioned by SIDBI/primary lending institutions. Charges-as per FEDAI guidelines.

**Foreign currency term loans (FCTL) scheme**

(**A.** Fixed Assets - **B.** Working Capital)

**Eligible Borrowers :** **A.** Industrial concerns in the small scale sector with good track record.

**B.** For rupee working capital requirements unit/Export/Trading House should have consistent export performance, low rate of rejections besides good track record.

**Purpose :** **A.** For, setting up new projects as well as for expansion diversification, technology upgradation and modernisation of existing projects with good track record. The projects should be preferably export-oriebnted.

**B.** For working capital purpose which include both indigenous and imported requirements.

**Norms :** FCTL will be extended in USD, DEM and EURO currencies.

**A.** Repayment-maximum 5 years with a moratorium of 1 year, kinked to the cash flow of the unit.

**B.** Repayment-maximum 5 years.

**Scheme for domestic factoring**

**Elgible Borrowers :** Facilities are extended to existing units in SSI sector-with good track record of performance and sound financial position-supplying components/parts/ accessories/sub-assemblies.

**Purpose :** To provide factoring services to the manufactures in SSI sector supplying their produce on credit terms to various purchasers in the domestic market with a view to assisting them in their receivabl management as also providing them with finance against the receivables factored.

**Norms :** Sales of the unit shoud preferably be spread over a minimum of 5 customers with maximum sales contribution in a single buyer being less than 30% Maximum credit period shall be of 90 days.

**Scheme of direct assistance under technology upgradation fund for textile industries**

**Eligible Borrowers :** SSI units in the *Textile* Sector and *cotton Ginning and Pressing* sector. SSI units graduating out of the sector after implementation of the Scheme would also be covered.

**Purpose :** TUFS has been launched with a view to sustain as well as improve the compectitiveness and overall longterm viability of the the *textile sector*. The scheme intends to provide timely and adequate capital at internationally comparable rates of interest in order to upgrade the textile industry's technology level. *The main feature of the TUF scheme would be five percent. reimbursement on the interest actually charged on the term loans extended for technology upgradation and modernisation.*

***Loan Limit*:** Amount of term loan shall be need based but not below Rs. 5 milion. For SSI units graduating out of the sector, the amount of laon shall be decided on a case basis.

**Minimum promoters :** 20 per cent of the project cost of project for Contribution *foreign currency term loan.*

**DER :** Not to exceed 2:1 for the company/concern as a whole.

***Rate of Interest* :** As per commercial lending rates of SIDBI. *Five percentage points interest reimbursement on rupee term loans shall be available* to the units from the Government of India through SIDBI.Cover for exchange rate fluctuation not exceeding five percentage points shall also be available in respect of foreign currency loans.

***Repayment Period :*** Not exceeding 7 or 10 years, including a moratorum period upto two years, for existing and new projects respectively.

***Programme period* :** The scheme shall be effective for a period of five years starting from April 01, 1999 to March 31 2004.

**Promotional Scheme Of Ifci :**

**Schemes of interest subsidy for Self-Development and Self-Employment of Unemployes Young Persons :**

**Objective :**

The main objective of the Scheme is to introduce persons, who are otherwise without work, to industry of industrial vocations after developing in them enterpreneurial traits and to settle them through the process of self-employment. The Scheme is in pursunce of the national objectives and aims at giving a better deal to weaker and underprivleged sections to the society.

The Scheme is applicable to the unemployed literate young person. An unemployed youth for the purpose of this Scheme, shall mean a person below 45 years of age who does not have, of his own, a permanent or a regular source of livelihood.

**Eligibility Criteria** :

*(i)* The unemployed young person should have been selected after a good selection process for an Entrepreneurship Development Programme (EDP) to be conducted by any of the Technical Consultancy Organisations (TCOs), Small Industries Service Institute(s) (SISIs) or such other Institutes/ Centres/Agencies conducting Entrepreneurship Development Programme (EDPs) as may be recognised by IFCI as 'Specified Agency' for the purpose of the Scheme.

*(ii)* The unemployed young person should have undergone a full course of an EDP conducted by the TCO/SISI/'Specified Agency' as the case may be.

*(iii) Pursuant to attending an EDP, the unemployed young person* should have decided to set up a new project of his own, for the first time, which may be a shop, trade repair service, production unit, tiny or small scale industry etc, for which have got prepared a complete project report *under overall guidance and in consulation with the TCO/ SISI/Specified Agency,* etc.

*(iv)* The unemployed young person must have been sanctioned and disbursed financial assistance by any SFC (set up under the SFC Act, 1951) or a State level fincial Institution performing the role of SFC, or a Bank for block capital/meeting capital cost of the project.

**Subsidy Assistance :**

The assistance under the scheme shall take the form of one-time subsidy determinable on a case basis, subject, however, to the following ceilings:

**Category 'A'**

***Scheduled caste/scheduled Tribe, Physically handicapped young persons, Ex-Servicemen or, Repatriates from Sri Lanka***

***(a) For tiny sector projects :*** Subsidy equivalent to the amount of interest payable to the SFC/Bank for the loan asistance disbursed for the project for a period of one year subject to a ceiling of Rs.7500

***(b) For small scale sector projects :*** Subsidy equivalent to the amount of interest payable to the SFC/Bank for the loan assistance disbursed for the projects for a period of one year subject to a ceiling of Rs.12,500

**Category 'B'**

***Other Young Persons***

***(a) For tiny sector projects :*** Subsidy equivalent to the amount of interest payable to the SFC/Bank for the loan assistance disbursed for the project for a period of one year subject to a ceiling of Rs. 5,000.

***(b) For small scale sector projects :*** Subsidy equivalent to the amount of interest payable to the SFC/Bank for the loan assistance disbursed for the projects for a period of one year subject to a ceiling of Rs.10,000

**Note :** Where, however, the unemployed young person has availed himself of the loan assistance both from the SFC as also the bank, interest subsidy would be available in respect of one loan assistance only.

**Terms and Conditions :**

*(i)* The unemployed young person should not engage himself on a part-time or whole-time basis, in any other business, trade, profession or vocation except the project undertaken by him.

*(ii)* The project undertaken by the unemployed young person should be his first venture, and he should be devoting full time to his venture.

*(iii)* IFCI will release the amount of subsidy to the SFC/Bank after the SFC/Bank which has financed the project, certifies and undertakes as follows:

*(a)* The unit has been set up by an unemployed young person who fulfils the eligibility criteria.

*(b)* The unit has been commissioned and has been able to achieve the production business norms at the optimum/ achievable capacity.

*(c)* The unit is not in default in meeting any statutory liabilities, Government dues, (In case, it is not possible for the SFC/Bank to certify the same a certificate in this regard must be obtained from the beneficiary unit and forwarded to IFCI).

*(d)* The dealing of the unit with the SFC/Bank are satisfactory.

*(e)* The subsidy is being claimed for the first time and for one unit which happens to be the first unit of the unemployed young persons.

*(f)* The SFC/Bank agrees to adjust the amount of subsidy against the interest liability of the project to it and in this way pass on the benefit of the subsidy to the unit set up by an unemployed young person.

*(g)* The unit will give an undertaking to IFCI, duly countersigned by the SFC/Bank to refund the amount of subsidy paid to it in case it is disposed of, or the SCF/Bank recalls the term loan granted by it, in case of default or any other circumstance rendering the unit as closed.

**Scheme of Interest Subsidy for Women Entrepreneurs**

**Objective :**

Entrepreneurship plays a critical role in the growth of any society, particularly in a fast developing country like India, It has been increasingly realised that enterprising women have vast entrepreneurial talents which could be harnessed so as to convert them the position of 'job-seekers' to 'job givers'

The main objective of the 'Scheme of Interest Subsidy for women Entrepreneurs' is to provide incentives to the women having business acumen and entrepreneurial traits to contribute their might in the industrial development programme of the country so that the avenues of self-development and self-employment are created for them.

The Scheme will know as 'Scheme of Interest Subsidy for Women Entrepreneurs'.

Subject to the eligibility criteria given below, all industrial projects whether in rural, cottage, tiny small (including ancillary) scale sectors (with project cost upto Rs. 15 lakhs), it set up by a women entrepreneur, on her pwn, with minimum financial stake of 51% in the unit, will be covered under the Scheme.

The Scheme shall be operated through the State Financial Corporations SFCs/State level Financial Institutions performing the role of SFCs/ Bank granting assistance to women entrepreneurs for setting up their industrial ventures in the rural, cottage, tiny and small sectors (with projects cost upto Rs. 15 lakhs) mentioned as above.

**Eligibility Criteria :**

To be eligible for availing herself of the subsidy under the Scheme, a woman entrepreneur should fulfil the following criteria:-

*(i)* The women entrepreneur should have preferably (though not necessarily), undergone a full course fo an Entrepreneurship Development Programme (EDP).

*(ii)* The woman entrepreneur should be unemployed before taking up the industrial venture and after taking up the industrial venture should not have engaged herself on a part-time or whole-time basis in any other business, trade, profession of vocation.

*(iii)* The enterprise should be owned and administered by the woman entrepeneur herself with a minimum financial interest of 51% in the share capital of the venture.

(iv) The industrial venture undertaken by the women entrepreneur should be her first venture, and she should be devoting full time to her venture.

*(v)* The woman entrepreneur must have been sanctioned and disbursed financial assistance by any SFC (set up under the SFC Act, 1951) or a State level Financial Institution performing the role of SFC or a Bank for block capital/meeting capital cost of the project.

**Subsidy Assistance**

*(i)* The assistance under the Scheme shall take the form of one-time subsidy, determinable on a case to case basis, and shall be equivalent to the amount of interest payable by the industrial unit set-up by the woman entrepreneur (s) to the SFC of the State level Financial Institution performing the role of SFC or Bank for the loan assistance disbursed for the project for a period of one year, subject for the loan assistance disbursed for the project for a period of one year, subject to a ceiling of Rs.20,000 per annum, provided the unit is promoted wholly by woman entrepreneur and there is no other corporate investment, otherwise.

*(ii)* Where, however the woman entrepreneur has availed herself of loan assistance both from SFC as also the Bank, interest subsidy would be available in respect of one loan assistance only.

*(iii)* The unit will give an undertaking to IFCI, duly counter signed by the SFC/Bank to refund the amount of subsidy paid to it, in case it is disposed of or SFC/Bank recalls the term loan granted by it, in case of default or any other circumstance rendering the unit as closed.

**Terms and Conditions :**

In the case of rural, cottage, tiny or small scale sectors (with a total project cost upto Rs. 15 lakhs), the SFC/Bank which has financed the project, will certify that:-

*(i)* The unit has been set up by a woman entrepreneur who is

herself managing the unit and fulfils the eligibility criteria.

*(ii)* The enterprise is owned the adminstered by the woman entrepreneur having a minmum financial interest of 51% of share capital.

*(iii)* The loan amount disbursed to the woman entrepreneur has been utilised for the purpose of assets formation.

*(iv)* The project has been commissioned and has been able to achive the production norms at the optimum/achievable capacity.

*(v)* The unit is not in default in meeting any statutory liabilities/Government dues. In case it is not possible for the SFC/Bank of certify the same, a certificate in this regard must be obtained from the beneficiary unit, and forwarded to IFCI

*(vi)* The dealings of the unit with SFC/Bank have been satisfactory.

*(vii)* The SFC/Bank agrees to adjust the amount of subsidy against the interest liability of the project to it, and in this way, pass on the benefit of the subsidy to the unit set up by a woman entrepreneur.

*(viii)* The subsidy is being claimed for the first time and for one industrial venture, and which happens to be the first industrial venture fo the woman entrepreneur(s).

**Scheme of Interest Subsidy for Encouraging Quality :**

***Control Measures in Small Scale Sector :***

**Objective :**

The objective of the Scheme is to provide incentives to the Small Scale Sector Industrial units to equip themselves with proper and adequate testing as well as quality control equipments so that they are able to improve the quality of their products and increase their domestic as well as international compettiveness. The Scheme will be known as "Scheme of Interest Subsidy for Encouraging Quality Control equipments so that are able to improve the quality of their products and increase their domestic as well as international competitiveness . The scheme will be known as "Scheme of interest subsidy for encouraging quality controls .Measures in the Small Scale Sector".

Subject to the eligibility criteria given below, the Scheme will be applicable to small scale units (including rural cottage and tiny scale sector units) which may be either proprietary or partnership concerns or in the corporate sector (incorporated under the companies Act, 1956) or co-operative sector enterprise.

The Scheme shall be operated through State Financial Corporations (SFCs) set up under the State financial Corporation Act, 1951, or as State level Financial Institution, performing the role of SFC.

**Eligibility Criteria :**

For being eligible for availing of the subsidy under the Scheme, the applicant concern should fulfil the following criteria:

*(i)* The applicant concern should be an existing concern in production; in other words, it should not have suspended its operations.

*(ii)* The applicant concern should be in default in meeting its statutory liabilities/Government dues, as also its commitments to the Financial Institutions and banks from whom it has obtained finance for its unit.

*(iii)* The applicant concern should not be in possession of testing and quality control equipment, which it should have procured with the assistance in respect of which 'interest subsidy' is claimed from IFCI.

*(iv)* The testing and quality control equipments procured should be basis for improving or maintaining the quality of the product and not merely peripheral.

*(v)* The unit must have been sanctioned and disbursed financial assistance either by the State Financial Corporations Act, 1951, or a State *level financial Institution, performing the role* of SFC.

*(vi)* Under the Scheme, an industrial unit shall be eligible for interest subsidy only once in its life cycle.

**Form of Assistance :**

The assistance under the Scheme shall take the form of one-time subsidy, determinable on a case to case basis, equivalent to the amount of interest payable by the industrial unit for one year to the SFC or the State level Financial Institution(s) performing the role of SFC for the loan assistance availed by the industrial unit for the purpose of acquiring the quality control/testing equipment, subject to a ceiling of interest, subsidy of Rs. 25,000.

The unit will give an undertaking to IFCI, duly counterisigned by the SFC/Bank to refund the amount of subsidy paid to it in case it is disposed of, or SFC/Bank recalls the term loan granted by it, in case of default or any other circumstance rendering the unit as closed.

**Other Terms and Conditions :**

The SFC/State level financial Institution shall certify that-

*(a)* The beneficiary unit fulfils the eligibility criteria.

(b) The unit is not in default in meeting its staturory liabilities/ Government dues (in case it is not possible for the SFC/State level Financial Institution performing the role of SFC, to certify the same, a certificate in this regard must be obtained from the beneficiary unit, and forwarded to IFCI).

*(c)* The dealings of the unit with the SFC/State level Financial Institution.Banks if any, are satisfactory.

*(d)* The SFC/State level Financial Institution(s) agree(s) to adjust the amount of subsidy against the interest liability of the project to it and this way pass on the benefit of the subsidy to the unit.

**Scheme of Interest Subsidy for Encouraging the Adoption of Indigenous Technology**

**Objective :**

One of the national objectives of industrial development in the country is to promote scientific and technological self-reliance and consequently projects based on indigenous technology are to be encouraged. Though, the Development Financing Institutions in India (both at State and National level) are giving priority to such projects in sanctioning financial assistance there is no scheme for providing subsidy to projects which play a pioneering role in the commerical exploitation of indigenous technology. IFCI has, therefore, instituted a Scheme for providing subsidy to such projects.

The Scheme will be known as "Scheme of Interest Subsidy for Encouraging the Adoption of Indigenous Technology. subjects to the eligibility criteria given belos, all projects in village and small industries (VSI) sector will be covered under the Scheme. The Scheme shall be operated through the State Financial Corporations (SFCs).State level financial Institutions performing the role of SFCs.

**Eligibility Criteria**

For being eligible for availing of the subsidy under the Scheme, the projects should fulfil the following criteria:

*(i)* The project must be base on indigenous technology (including any process) or other know-how developed in or which is invented by an individual or a firm or group of individuals or Government laboratories, or public sector companies, or Universities, National Research Development Corporation, or any other institution recognised by the Government of India.

*(ii)* The right to use indigenous technology must have been acquired by the promoters implementing the projects from the above in accordance with some binding agreement.

*(iii)* The indigenous technology proposed to be used by the projects should be one which has not already been exploited on a commercial scale in the country and a certificate to this effect must be obtained from the concerned party(ies) mentioned in para. 5 (i) above.

(iv) The indigenous technology should be basic to the manufacture of the proposed product and not merely peripheral to it.

(v) The project must have been sanctioned financial assistance by a State Financial Corporation (set up under State Financial Corporations Act, 1951).

**Form of Assistance :**

The assistance under the Scheme will take the form of one-time subsidy, determinable on a case to case basis, subject, however, to 80% of the cost of acquisition of indigenous know-how, or Rs. 20,000 or 10% of the cost of the project, whichever is lower. The unit will give an undertaking to the IFCI, duly countersigned by the SFC/Bank to refund the amount of subsidy paid to it in case it is disposed of or the SFC/Bank recalls the term loan granted by it, in case of default or any other circumstance rendering the unit as closed.

**Terms and conditions :**

The SFC which has financed the project will certify that:-

*(i)* The unit fulfils the eligibility criteria;

*(ii)* The project has been commissioned and has been able to achieve the production norms at the optimum (achievable) capacity;

*(iii)* The unit is not in default in meeting its statutory liabilities/ Government dues (in case it is not possible for the SFC to certify the same, a certificate in this regard must be obtained from the beneficiary unit, and forwarded to IFCI);

*(iv)* The unit is meeting its commitments to the SFC;

*(v)* The SFC agrees to adjust the amount of subsidy against the interest liability of the project to it and in this way pass on the benefit of the subsidy to the unit. IFCI will release the amount of subsidy in favour of the Financial Institution providing financial assistance for the project.

**Scheme for Encouraging Entrepreneurship Development**

**In Tourism and Tourism Related Activities :**

**Objective :**

With its rich and diversified cultural heritage, resplendent natural resources, flora and fauna, India has tremendous potential for the development of tourism and tourism related activities. Tourism and tourism related activities having been given the status of an 'industry' also afford considerable scope for self-employment generation, particularly amongst educated unemployed youths. The main objective of the Scheme is to introduce person, who are otherwise without work, to tourism and tourism-related activities, after developing in them entrepreneurial traits and to settle them though the process of self-employment.

The Scheme will be operated through specified agencies which are engaged in carrying out entrepreneurship development programmes on an acceptable pattern. Such specified agencies may be Technical Consultancy Organisations (TCOs) sponsored by Financial Institutions, Institutes of Entrepreneurship Developments (IEDs) set up by the Financial Institutions of State level Institutions sponsored by a State Government which are, *inter alia*, engaged in entrepreneurship development and enterprise-setting activities. The Scheme will be operated in one or two States. After gaining experience, and subject to availability of resources, IFCI may consider extending the Scheme to other States possessing high Tourism potential in the country.

**Form of Assistance :**

*The assistance under the Scheme will be granted to the specified* agency in the form of the funds support for-

*(a)* Carrying out a minimum six weeks' entrepreneurship development programme for unemployed educated youths, who after a good selection process, are found suitable for being developed for undertaking tourism-related activities, with an in-built provision of minimum one year's follow-up or until the enterprise is set up by the trained entrepreneur, whichever is earlier; and

*(b)* giving a one-time stipend of Rs. 1,500 per trainee-entre preneur which will be released to him through the "specified agency" immediately after he has tied up the finances required for setting up the tourism-related enterprise either from a State level financial institution or a bank.

**Terms and Conditions :**

*(i)* Before undertaking an entrepreneurship Development Programme (EDP) with IFCI's funds support, the specified agency shall formulate a proper proposal and furnish the same to IFCI, with a view to setting the cost of EDP with IFCI in advance.

*(ii)* The "specified agency" before undertaking entrepreneurship development programme shall have a tie-up with the Lead Bank or any other Bank for provision of Composite loan(s) to the trained entrepreneur(s)

*(iii)* After IFCI has accorded approval for the funds support to an EDP, the disbursement of the amount shall be on the following basis:-

*(a)* 40% of the agreed amount on the completion of the EDP; and

*(b)* remaining 30% of the amount on the completion of their EDP; and

*(c)* the balance 30% of the agreed amount, after the specified agency has satisified IFCI that at least 50% of the trainee entrepreneurs have been able to set up their enterprises and are in operation.

*(iv)* No over-run in the cost for conducting the EDP shall be funded by IFCI.

*(v)* The specified agency shall constitute a 'Guidance and Monitoring Committee' for selection of trainee-entrepreneurs, overseeing the conduct of EDPs and monitoring and follow-up activities in relation to the conducted EDP.

*(vi)* Not more than two EDPs per specified agency per year (April-March basis) shall be agreed to by IFCI.

*(vii)* The disbursement of stipend shall be made by IFCI upon receiving an application in a form, as may be prescribed by IFCI, duly supported and recommended by the "specified agency" and giving such certificate with regard to the eligibility of the trainee-entrepreneur as IFCI may require. The application has to be accompanied with a passport size photograph of the unemployed educated youth (now an entrepreneur) with a post-card size photograph of his enterprise along with a story/write-up of the venture set-up by him. The disbursement of the stipend shall then be made to the specified agency for onward passing on the same to the entrepreneur concerned.

*(viii)* The trained entrepreneur shall also be entitled to interest subsidy under IFCI's Scheme of Interest Subsidy for Self Development and Self-Employment of Unemployed Young Persons, equivalent to the amount of interest payable by the entrepreneur to the State Financial corporation (SFC)/ Bank for the loan assistance disbursed for his project for a period of one year, subject to the ceilings ranging from Rs. 5,000/7,500 to Rs. 10,000/ 12,500 as prescribed under the aforesaid Scheme of subsidy for consulantancy to industries relating to **animal husbandry, dairy farming, poultry farming an fishing.**

**Objective**

Animal Husbandry, Dairy Farming, Poultry Farming and Fishing occupy an important place in the economy of the country. The pursuit of these trades on scientific lines is in the interest of creating avenues for self-employment and freeing the poverty stricken people from hunger as well as

poverty. With a view to developing a culture for consultancy in these vital areas, which have an impact on the rural society in our country, IFCI has devised a scheme of Subsidy for Consultancy to Industries relating to Animal Husbandry, Dairy Farming, Poultry Farming and Fishing.

**Criteria :**

*(i)* The Scheme is applicable to a small entrepreneur(s),, generally first timers(s), who propose to set up an industrial unit related to Animal Husbandry, Dairy Farming, Poultry Farming or Fishing on an organised basis in the rural, cottage, tiny or small scale with project cost upto Rs. 15 lakhs.

*(ii)* Under the Scheme, it is the unit in small scale sector which will be eligible for subsidy in respect of consultancy assignment of given by it to the Technical consultancy Organisation (TCO) [with whom one or more Financial Institutions or DEvelopment Agencies at the State or All India level have been associated as a shareholder(s) or as a member(s) of the Board of Management.

*(iii)* The unit in its constitutional form may be either a single proprietorship, partnership firm or a co-operative society or a company, IFCI would subsidise only one consultancy assignment taken up by the TCO to assist eligible units during once in their life cycle. The nature of the assignment may include preparation of feasibility study, project report, market study application for financial assistance from Financial Institutions (including banks), providing of technical assistance in implementation of the Scheme etc.

**Limits of Subsidy :**

*(i)* IFCI will subsidise assignment taken up by TCOs upto a limit of Rs. 2 lakhs per annum (April-March basis) per TCO.

*(ii)* The fees for the assignment taken up unOder this Scheme by a TCO will be subsidised to the extent of 80 per cent. or Rs. 4,000 per assignment whichever is lower. The balance 20 per cent. or above, is normally expected to be met by the beneficiary unit :

**Terms and Conditions :**

*(i)* The benefit ofsubsidy claimed by TCO in relation to the assignment under the above Scheme shall have to be passed on the the beneficiary unit and the same shall have to be certified by the TCO to satisfaction of IFCI.

*(ii)* The TCO, while undertaking the consultancy asignment, shall stipulate that-

*(a)* The entrepreneur shall keep the TCO informed about further

developments in relation to the assignement and shall keep the TCO so informed until the assignment gets executed; and

*(b)* in case the entrepreneur is unable to take effectivesyeps, as contemplated within one year from the data of completion of the consultancy assignment, the Report prepared by the TCO pursuant to the consultancy assignment shall become the sole and absolute property of TCO, and the entrepreneur shall not be entitled to prevent the use of the Report in any form or manner by the TCO or other entrpreneur.

*(iii)* The TCOs shall send a quartely report to IFCI giving the list of assignments completed by it in the quarter, which should be certified to be coverd under the Scheme and for which the subsidy claim is proposed to be preferred. Details of each consultancy assignment shad be given in the prescribed proforma, the contents of which shall be duly authenticated and certified to be true by the Managing Director of the TCO. IFCI will release the amount of subsidy to the TCO based on the said claim after examining the quarterly report and obtaining such clarification/information, as it may deem necessary.

**[9] Scheme of subsidy for consultancy to industries based on or related to agriculture, horticulture, sericulture and pisciculture :**

**Objective**

Industries based on Agriculture, Horticulture, Sericulture and pisciculture are assuming importance day by day, With these industries, the question of proper packaging of the products is also unvolved. Particularly in the area of Horticulture, it has to be cnsured that the packing of fruits and other products is so done that it does not lead to indiscriminate exploitation of forest wealth of country. With a view to developing a culture for consultancy in these vital areas, which have an impact on the economy of the country. IFCI has devised a Scheme of subsicy for Consultancy relating to Industries based on or related to Agriculture, Horticulture, Sericulture and Pisciculture.

**Criteria :**

(i) The Scheme is applicable to a small entrepreneur(s), generally first-timer(s), who propose to set up an industrial unit based on or related to Agriculture, Horticulture Sericulture or Pisciculture in the rural, cottage, tiny and small scale sector with project cost upto Rs.15 lakhs.

*(ii)* Under the Scheme, it is the unit in the small scale sector, which will be eligible for subsidy in respect of, consultancy assignment, if given by it to the Technical consultancy Organisation (TCO) (with whom one or more Financial Institutions or Developmental Agencies at the State level or all India level have been associated as a shareholder(s), or as a member(s) of the Board Management).

*(iii)* The unit in its constitutional from may be either a single pro-

prietorship, or partnership frirm or a co-operative society or a company IFCI would subsidise only one consultancy assignment taken up by TCO to assist eligible units during once in their life cycle, The nature of the assignment may include preparation of feasibility study, project report, market study application for financial assistance from Financial Institutions (including banks), providing of technical assistance in implementation of the Scheme, etc.

**Limits of Subsicy**

*(i)* IFCI will subsidise assignment taken up by TCOs upto a limit of Rs. 2 lakhs per annum (April-March basis) per TCO.

**(ii)** The fees for the assignment taken up under this Scheme by a TCO will be subsidised to the extent of 80 per cent. or Rs. 4,000 per assignment, whichever is lower. The balance 20 per cent. or above, is normally expected to be met by the beneficiary unit.

**Provided :** however, that where the assignments partain- (a) to physically handicapped entrepreneurs, or (b) to the entrepreneurs belonging to the category of Scheduled Castes and Scheduled Tribes, Ex-Servicemen or Repartiates from Sri Lanka, or Programme (IRDP) of the Government of India, the TCO may be subsidised to the extent of 100 per cent. of fees for the assignment of Rs. 5,000, whichever is lower.

**Terms and Conditions**

*(i)* The benefit of subsidy claimed by TCO in relation to the assignment under the Scheme shall have to be passed on the the beneficiary unit and the same shall have to be certified by the TCO to the satisfaction of IFCI.

*(ii)* The TCO, while undertaking the consultancy assignment, shall stipulate that-

*(a)* the entrepreneur shall keep the TCO informed about further developments in relation to the assignment and shall keep the TCO so informed until the assignment gets excuted; and

*(b)* in case the entrepreneur is unable to take effective steps, as contemplated, within one year from the date of completion of the consultancy assignment the Report prepared by the TCO pursuant to the consultancy assignment shall become the sole and sbsolute property of the TCO, and the entrepreneur shall not be entitled to prevent the use of the Report in any form or manner by the TCO or other entrepreneurs.

*(iii)* The TCOs shall send a quarterly report to IFCI giving the list assignments completed by it in the quarter, which should be certified to be covered under the Scheme and for which the subsidy slaim is proposed to be prefered. Details of each consultancy assignment shall be given in the prescribed proforma, the contents of which shall be duly authenticated and cer-

tified to be true by the Managing Director of the TCO. IFCI will release the amount of subsidy to the such clarification/information, as it may deem necessary.

**[10] Scheme of subsidy for promotion of ancillary and**

**Small Scale Industries :**

1. One of the main objectives of Industrial Policy of Government is to encourage the setting-up of industries in the small scale and ancillary sectors. Accordingly, IFCI has been operating as part of its promotional activities a Scheme for Promotion of Ancillary and Small Scale Industires.

**Objective :**

The objectives of the Scheme are :-

*(a)* to encourage the setting-up of ancillary and small scale industries which manufacture intermediate goods and components or provides services to units in the small, medium and large sectors, according to design, specifications and quality standards given to them by such units and pursuant to an off-take arrangement;

*(b)* to encourage the setting-up of ancillary and small scale units which are in the nature of down stream projects of the small, medium and large industries from whom they obtain their major raw materials under a supply arrangement; and

*(c)* Generally to up-grade the technical capabilities and improve the financial viability of ancillary and small scale units of the types referred to above by provision of advice and guidance in technical, financial and marketing areas.

**Eligibility Criteria :**

The Scheme covers entrepreneur-linked ancillary industrial units in the small scale sector which manufacture or propose to manufacture products according to the designs, specification and quality standards given to them by units in the small, medium and large sectors pursuant to a minimum of-take arrangment. Small scale industrial units ghough not strictly registered as ancillary units, but whose activities correspond with that of the ancillary industrial units, as mentioned above, are also covered under the Scheme. The Scheme akso covers down stream industrial units in the small scale sector which obtain or propose to obtain their major raw materials from the units in the small, medium and large sectors under a supply arrangement for further processing.

Units in the ancillary and small scale sector industries including downstram industries as mentioned above, are also covered under the Scheme in connection with their expansion or diversification activities with a view to

improving their-viability from the financial, technical or marketing angle. The types of ancillary and small scale units described in this clause will hereinafter be feferred to as "Eligible Industrial Units".

**Purpose :**

The subsidy under the Scheme will be made available to the specified Agencies mentioned in clauses 5 *(i)* and *(ii)* for the following purposes :

*(i)* Identification of products suitable for ancillarisation or for further processing in the small scale sector.

*(ii)* Preparation of feasibility reports for establishing the viability of the proposed Eligible Industrial Units.

*7(iii)* Provision of advice and guidance in the technical, marketing and financial areas to Eligible Industrial Units in connection with or diversification of their activities with a view to improving their viability from financial, technica, or activities with a view to improving their viability from financial, technical, or marketing angle.

**Channel of Assistance :**

The subsidy under the Scheme will be made available to the following agencies for carrying out activities specified in clause 4 :-

*(i)* Technical Consultancy Organisations (TCOs) with which one or more Financial Institutions or developmental agencies at the State or all India level have been associated as a shareholder(s), or as a member(s) of the Board of Management.

*(ii)* One of the State level developmental agencies in each of the States in which no organisation of the type mentioned in (i) above, has been set up.

**Terms and Conditions :**

IFCI will subsidise the fees for assignment taken up and completed by the TCO/State level developmental agencies upto a limit of Rs. 1 lakh per annum (April-March) per TCO/State level developmental agency :

**Provided :** That IFCI may consider additional subsidy upto Rs. 0.50 lakh per annum (April-March) per TCO in respect of the assignments undertaken by it, on merits.

***Limits and Ceilings :***

*(i)* IFCI will reimburse 50 per cent. or Rs. 7,500, whichever is less, of the fees of the assignment taken up by the TCO/State level developmental agency in respect of assignments mentioned in clause 4 on pre-page

as soon as it is completed.

*(ii)* IFCI will reimburse the balance 50 per cent. or Rs. 7,500, whichever is less, of the fees for the assignment after-

*(a)* the financial assistance has been sanctioned by the State level Institution or a commercial bank to the proposed ancillary unit, and

*(b)* the minimum off-take/supply arrangment has been formalised between the main unit and the proposed ancillary unit.

*(iii)* The TCO/specified Agency, while undertaking the consultancy assignment, shall stipulate that-

*(a)* The entrepreneur of ancillary unit shall keep the TCO.Specified Agency informed about developments in relation to project from time to time till it is fully commissioned; and

*b)* in case the entrepreneur is unable to take effective steps to steps to setup the project within one year from the date of completion of the consultancy assignment, the Report prepared by the TCO/State level developmental agency, pursuant to the consultancy assignment, shall become the sole and absolute property of the TCO/State level developmental agency, and entrepreneur shall not be entitled to prevent the use of the Report in any form or manner by the TCO/State level developmental agency or other entrepreneurs.

*(iv)* The TCO/State level developmental agency shall send a half-yearly report to IFCI giving the list of assignments completed by it in the half-year for which the subsidy claim is proposed to be preferred; and this shall be certified to be covered under the Scheme. Details of each consultancy assignment shall be given in the prescribed proforma, the contents of which shall be duly authenticated and certified to be true by the Managing Director of the TCO/State level developmental agency. IFCI will release the amount of subsidy to the TCO/State level developmental agency based on the said claim after examining the half-yearly report and obtaining such clarification/information, as it may deem necessary.

**[11] Scheme of subsidy to new entrepreneurs for meeting Cost of Market Research/Survey :**

**Objective :**

It has been the experience of IFCI that entrepreneurs new to industry often do not give the necessary importance to examining the market aspect in formulating project proposals. IFCI, in order to encourage the commissioning of proper market research/survey report, ahs decided to subsidise the cost of market research/survey instituted by the new entrepreneurs (who may be locally based or non-resident Indians for assessing the market for the products proposed to be manufactured by them.

**Eligibility Criteria :**

*(i)* This Scheme is applicable only to a new entrepreneur (i.e, locally based or non-resident Indian) who is setting up small scale or ancillary industrial unit for thefirst time.

*(ii)* The project being set up by the new entrepreneur belongs to an industry where 'Technology' or 'market' is of paramount importance, and an intensive market research/survey in considered absolutely necessary for determining the commercial viability of the project.

*(iii)* The request for financial assistance for the aforesaid project has been made or is proposed to be made by the new entrepreneur to either a State level financial /developmental institution, *i.e,* State Financial Corporation (SFC), State Industrial Development Corporation (SIDC), or State Industrial & Investment Corporation (SIIC), singly or jointly, or a commercial bank.

*(iv)* The project is one which is eligible for financial assistance from the aforesaid State level Institution, or a commercial bank.

*(v)* The assignment for the market research/survey should have been awarded to a Technical Consultancy Organisation (TCO) by the new entrepreneur and the TCO concerned, after satisfying itself that the product proposed to be manufactured deserves an independent and expert domestic or export market research/survey, should have accepted to carry out the assignment in accordance with the terms of reference to be settled in advance by the parties, *i.e* the new entrepreneur and the TCO

**Channel of Assistance :**

The subsidy under the Scheme will be made available only to the TCO with which one or more Financial Institutions or developmental agencies at the State or all India level have been associated as a shareholder(s), or as member(s) of the Board of Management. The fee for market research survey payable to the TCO, by the new entrepreneur would be subsidised by IFCI and paid to the TCO to the extent of 75 per cent. or Rs. 7,500, whichever is less, in the case of industrial projects, in the small and ancillary sectors.

***Limits of Assistance :***

IFCI will subsidise assignments completed by a TCO upto a limit of Rs. 1.50 lakhs per annum (April-March) per TCO.

**Terms and Conditions :**

*(i)* At the time of taking up the assignment pertaining to market research/survey the TCO must take in advance, non-refundable fee of at least 25 per cent. of the cost of the assignment from the new entrepreneur to ensure his sustained interest in the project.

*(ii)* The amount of subsidy specified in para 4 shall be paid in the concerned TCO upon its-

*(a)* making available a copy of the market research/survey report to IFCI;

*(b)* furnishing an Essentiality Certificate from the State level financial/developmental institution(s) commercial bank that an independent market reserch/survey was absolutely necessary and that the requirements of the concerned institution(s) commercial bank.

**Scheme Of Subsidy For Providing Marketing Assistance To Small Scale Units :**

**Objective :**

Problems relating to marketing have often led to sickness. Marketing assistance has been considered to be essential by various Committees/Commissions/Study Groups for the development and growth of small scale industry on viable lines. The objective of the Scheme of Subsidy for providing the Marketing Assistance to small Scale Units is to encourage the small scale units (including, rural, cottage and tiny scale units) to avail themselves of marketing assistance facilities offered by 'Technical Consultancy Organisations (TCOs), with which one or more Financial Institutions or developmental agencies at the State or all India level have been associated as a shareholder(s) or as a member(s) of the Board of Management. The Scheme involves the TCOs fully in providing marketing assistance to the small scale sector units at an economical and competitive cost, due to a part of its fees being subsidised by IFCI.

**Eligibility Criteria :**

*(i)* The Scheme is applicable to all small scale units including rural, cottage, tiny sector and ancillary units.

*(ii)* Under the Scheme, a unit shall be eligible for assistance in respect of marketing, once during its life cycle.

**Nature of Marketing Assistance :**

The marketing assistance under the scheme may cover-

*(a)* investigating clients 'marketing' problems;

*(b)* its project profile vis-a-vis, its capacity, quality in relation to industry norms and trade practice;

*(c)* providing marketing intelligence;

*(d)* evolution of a marketing strategy including advice on distribu-

tion system, pricing, discount, credit policies, etc

*(e)* designing a marketing organisation for the industrial unit;

*(f)* helpingthe small scale industrial unit in having a marketing tie-up with some other unit or agency;

*(g)* conselling on product improvement and technology upgradation with a view to improving the overall marketing compettiveness of the products(s); and

*(h)* providing of expert services as are generally expected to be provided by the marketing consultants.

**Nature of Assignment :**

Under the Scheme, the TCO would undertake the assignment for a minimum period of one year which would cover the provision of one or more aspects mentioned in (3) above th the small scale sector industrial unit. The TCO will charge 20 per cent. of its fees from the beneficiary unit while accepting the assignment, next 20 per cent., when it is able to provide blueprint(s) of the marketing strategy, or marketing organisation or marketing counselling to the industrial unit. The next 20 per cent. of the fees, the TCO would be charging from the veneficiary unit when the TCO is able to implement the marketing assistance scheme prepared by it to the satisfaction of the concerned industrial unit. The last and the final 40 per cent. of the fees (subject to ceiling of Rs. 7,500 chargeable by the TCO from the beneficiary unit, would be subsidised by IFCI, subject to a certificate from the benefiiciary unit that the marketing assistance provided by the TCO has been put into implementation and has resulted in perceptible improvement in the sales turnover of the unit compared with its performance in the previous year.

**Subsidy to TCO :**

As indicated in (4) above, the subsidy from IFCI payable to the TCO per assignment of a minimum one year's duration shall be limited to the last instalment of fees chargeable by the TCO subject to a limit of 40 per cent. of the total fees or Rs. 7,500, whichever is lower :

**Provided** that the aggregate amount to be subsidised to a TCO in respect of marketing assistance assignments handled by it shall not exceed Rs. 2 lakhs per annum (April-March) basis.

**Terms and Conditions :**

*(i)* The TCO shall send a report to IFCI giving the list of assignments completed by it as the end of 31st March and 30th September every year in respect of subsidy claims proposed to be preferred, giving the details of each assignment in the prescribed form authenticated and certified to be true by the Managing Director of the TCO. Each claim shall be accompanied

by a certificate from the beneficiary unit certifying that the marketing assistance provided by the TCO has actually been implemented and has resulted in perceptible improvement in the sales turnover of the unit compared with its performance in the previous year(s) would be given in the certificate.

*(ii)* IFCI will release the amount of subsidy of the TCO based on the said claim and the said certificate and after examining the half-yearly report and obtaining such clarifications/information, as it may deem necessary.

**[13] Scheme of subsidy for consultancy on use of Non-conventional Sources Of Energy And Energy Conservation Measures**

**Objective**

The rising cost of conventional sources of energy and the fast dwindling reserves of fossil fuels have made it imperative for the main consumers of energy to formulate appropriate scheme to design and develop proper systems aiming at not only cutting down the consumption level of energy in the form it is currently available, but also to produce and make wider application of the alternate and renewable sources of energy. The conservation of energy by better management has to be paid utmost attention in view of he scarcity and increasing demand of energy for various purposes. Ebergy Management has to be looked into not only from the angle of the larger national interest, but also as a means of reducing the cost of production so as to improve or, at least, maintain the reasonable margin of profit. A unit of energy saved is a unit of energy gained.

In the small scale industrial sector, entrepreneurs, though aware of the importance of the energy conservation and energy management, often find it difficult to evolve and implement the energy conservation measures. Also in areas, where non-conventional sources of energy can be gainfully employed, these are not being sometimes exploited because of lack of information and expert counselling.

To meet the growing need for formulation of suitable proposals for the use of non-conventional sources of energy and taking up energy conservation measures, IFCI has devised a Scheme which envisages subsidising the fees payable to a Technical Consultancy Organisation (TCO) for theconsultancy services provided by it in this vital area.

The Scheme is known as the "Scheme of Subsidy for Consultancy on Use of Non-Conventional Sources of Energy and Energy Conservation Measures". Subject to the eligibility criteria given below all industrial projects in the rural, tiny, small, and ancillary sector are covered under the Scheme.

The Scheme shall be operated through the TCOs (with whom one or more Financial Institutions or developmental agencies at State or all India level are associated as a shareholder(s) or as a member(s) on the Board or

their management whose to industrial units in thw small and medium scale sector.

**Eligibility Criteria**

**(i)** The Scheme is applicable to any existing unit in the Village and Small Industries (VSI) sector.

**(ii)** Under ther Scheme, an existing industrial unit shall be eligible for subsidy in respect of consultancy assignment only once during the project's life cycle and for one project only.

**Purpose :**

The consultancy assignment under this Scheme may involve preparation of a plan/proposal, an if so, required implementation, envisaging either application of non-conventional sources of energy and/or fuel consumption thereby leading to Energy Conservation of better energy management.

**Limits of Subsidy**

***(i)*** IFCI will subsidise assignment taken up by TCOs upto a limit of Rs. 3 lakhs per annum (April-March) per TCO.

***(ii)*** The scale of subsidise to be given by IFCI will as under:-

***(a)*** Where the assignment is 50 per cent of the fees of one shot type and or Rs. 5,000, whichever does not involve TCO is lower in the implementtation of the plan/scheme

***(b)*** Where the TCO is 75 per cent. of the fees involved not only with or Rs. 7,500, whichever the formulation of Energy is lower. Conservation plan or making application of Non-Coventional Energy Sources, but is also involved with its implementation.

***(iii)*** Where the TCO is involved with the implementtation of the Energy Conservation plan or the Plan relating to use of Non-Converntional Energy Sources 1/3rd of the subsidy will be paid to the TCO upon implementation of the plan.

**Terms and Conditions :**

***(i)*** The benefit of subsidy claimed by the TCO in relation to the assignment under the above Scheme shall have to be passed on to the beneficiary unit and the same shall have to be certified by the TCO to the satisfaction of IFCI.

***(ii)*** The TCO, while undertaking the consultancy assignment, if it is one shot type of assignment, shall stipulate that the unit shall keep the TCO informed about further developments in relation to the implemented and

put in to operation.

*(iii)* Where the assignment envisages the involvement of TCOs with the implementation of the Scheme of either relating to energy conservation or application of non-conventional energy sources, the TCO shall furnish a quarterly Report to IFCI giveing the progress of implementation and shall submit its claim for payment of final subsidy amount after obtaining a certificate from the beneficiary unit that its scheme or plan, as suggested by it, has been implemented to thebeneficiary unit's satisfaction.

*(iv)* IFCI will release the amount of subsidy to the TCO based on its claim in the formal, as may be prescribed, and after examining the same as also upon obtaining such clarification/information, certificate, etc., as if may deem necessary.

## Annexure 3

### Guidelines for the Scheme of Credit Linked Capital Subsidy for Technology Upgradation of the Small Scale Industries (SSI)

The scheme is called the "Credited Linked Capital Subsidy Scheme for TechnologyUpgradation of the Small Scale Industries(SSI)"

The scheme aims to facilitate technology upgradation by SSI units in the specified products/sub -sectors by back ended capital subsidy for induction of proven technologies approved under the scheme. The scheme would cover the following products/sub-sectors in the SSI:-

(i) Leather and Leather products including footwear and garments

(ii) Food processing

(iii) Information technology(hardware)

(iv) Drugs and pharmaceuticals

(v) Auto parts and components

(vi) Electronic industry particularly relating to design and measuring

(vii) Glass and Ceramic items including tiles

(viii) Dyes and intermediates

(ix) Toys

(x) Tyres

(xi) Hand tools

(xii) Bicycle parts

(xiii) Foundries-ferrous cast Iron,and

(xiv) Stone industry

As the scheme progresses,the above list of products/ sub-sectors may be expanded with the approval of the Advisory Committee constituted under this scheme.

**Type of unit to be covered under the scheme**

(i) existing SSI units registered with the State Directorate of Industries which upgrade with State of with or without expansion.

(ii) New SSI units which are regisered with State Directorate of Industries and which set up their for the appropriate eligible and proven technology duly approved by the Technical Advisory Committe.

**Definition of Technology Upgradation**

(i) Technology upgradation would ordinarily mean induction of state-of-the-art or near state-of-the-art technical varying mosaic of technology obtaining in more than 7500 products being produced in the indian small scale technology upgradation would mean a significant step up from the present technology level to a substantial involving improved productivity,or/and improvement in the quality of products or/and improved environmen including work environment for the unit. It would also include installation of improved packaging techniques pollution measure and energy conservation machinery.

(ii) Replacement of existing equipments/technology with the same equipment/technology will not qualify for it would the scheme be applicable to units upgrading with second hand machinery.

**Duration of the Scheme**

The scheme will be in operation for a period of five uears from 1.10.2000 to 30.9.2005, or till the time sanction subsidy by the Nodal agency reach rs. 600 crores, whichever is earlier. This will have a carry forward impli 11 years.

***Cap on amount of subsidy***

- The financial assistance by the banks/SIDBI for technology upgradation will be need based. However support would be limited to the loan amount *indiacated below.* :

- Value of plant & machinery being acquired under the scheme will be determined by its purchase price.

- Capital subsidy under this scheme will not be admissible for loan amount exceeding the limits indiacated Procedure for sanction and disbursement of loans

The SSI unit will have to apply for financial assistance in the prescribed form to any scheduled commercial or one of the declared eligible State Financial Corporations (SFC). The list of eligible SFCs would be finalised consultation with the Banking Division, Ministry of Finance. The bank/ SFC after appraisal would refer the SIDBI, which would convey clearance for capital subsidy.

The lending institution would be required to lodge capital subsidy from SIDBI on a quarterly basis. SIDBI will settle the claim expeditiously. Procedure for sanations and releae of subsidy In order to get the scheme operationaised, an interest free advance of Rs. 25 crore will be given to SIDBI of SSI&ARI. The entire subsidy amount of Rs. 600 crore would be released in suitable installement to SIDBI necessary provision would be made in the Annual Plan Budget of Decelopment Commissioner(SSI)

SIDBI would prescribe the modalities for submission of subsidy claims by commercial bank/State fianancial corporations The detailed methodology of the releases and adjustment of subsidy shall be worked out in consultation. The SIDBI shall maintain and monitor fund utiisation under the scheme. Monitoring of the Scheme Constitution of a Governing Board.The scheme will be monitored by a Governing Secretary (SSI&ARI) will be the chairperson of the Development Commissioner (SSI) will be its member secretary. The governing board shall consist of representative banking division(Ministry of Finance), planiing commission, department of science and technology, council of economic & industrial reaserch, Indian council for agricultural Reaserch. SIDBI, some selected public sector banks selected small scale industries associations as members. The governing board will lay down the policy guidance give neccessary directions for smooth functionaing of the scheme. SIDBI will operate the scheme according terms laid down and direction given. The Governing Board will monitor and review the functioning of the scheme at least twice a year.

**Review of approved technologiesd-Constitution of a techanical advisory commmitte**

- Identification of technology is a continous process. moreover, new technology may also come during the scheme. A list of certain proven tecnologies, which have been approved under this scheme is at Ann

- A Technical Advisory Commitee would be setup under Chairmanship of the Secretary(SSI&ARI) to identify the art technolgy and banchmark existing and new technologies which will be eligible for support under th consist of representatives of concerned ministries including plannning commission, Technical Reaseerch Institutes/Organisations such as council of scientific & Industrial Reaserch institues/ Organisation such as council of Scientific & Industrial Research, Department of Science and Technology National Reaserch Development Corporation, Indian Council of Agricultural Research and Industries Association Development Commissioner (small scale Industries) will be the member-secretory of the Technical Advisory committee. The committee would periodically meet and identified the new technology for approval under this scheme.

**Estimated Requirement of funds**

- As credit linked capital subsidy is to be provided for loans of Rs. 5000 crores during the five years of its operation, liability of Government would be Rs. *600 crores (12 per cent of Rs. 5000 crores ) under this scheme.*

- Based on this, estimated year-wise funding requirement during the operation of the scheme is as fund O/S-outstanding **Total=750 crores**

- Total loan of Rs. 1000 crore to be disbursed in a year will be uniformly staggered over a year, hence total of interst support in the first year will be only for half loan amount, i.e. Rs. 500 crore

@ Repayment has been assumed at 25% of the loan after moratorium of one year.

Annexure 4

# APPLICATION FOR APPROVAL OF FOREIGN INVESTMENT AND TECHNOLOGY TRANSFER AGREEMENT

## FORM FC(SIA)

(i) All applications for permission under paragraphs 39B*(iii)* and 39C*(iii)* of the Statement on Industrial Policy (July, 1991) are to be submitted to the Secretariat for Industrial Approvals, Ministry of Industry (Department of Industrial Development), Udyog Bhavan, New Delhi - 110 001 (in 10 copies). One application along with 9 photocopies would be acceptable.

(ii) Entrepreneurs may go through the "*Note for Guidance of Entrepreneurs for Foreign Investment and Technology Transfer Agreement*" (attached to this Form) carefully before filling up the details in the Form. The Note contains relevant extracts of the Statement on Industrial Policy, standard conditions attached to approvals for foreign investment/foreign technology agreements, procedure for hiring foreign technicians, foreign testing of indigenous raw materials and products and indigenously developed technology, deputation of Indian technicians abroad and a note on Indian Trade Classification (Harmonised System) and guidelines for filling up the Form FC(SIA).

| (FOR OFFICE USE ONLY) | | | |
|---|---|---|---|
| 1. Date of receipt | | | |
| 2. Date of approval | | | |
| 3. Regn. No. allotted | | | |

I. Nature of application (Please tick ( ) the appropriate box/boxes):

[ ] For foreign investment under para. 39B*(iii)*.

[ ] For foreign technology agreement under para. 39C*(iii)*.

II. Name and Address of the Promoter/Industrial Undertaking (Indian/Foreign) in full (BLOCK LETTERS):

Name of the Promoter/ Industrial Undertaking

Postal Address

PinCode [ ] Telephone [ ]

Telex [ ] Fax [ ]

Cable [ ]

III. (I) Capital Structure of the existing Indian Company:

*(Amount in Rupees)*

| | Equity | Preference |
|---|---|---|
| *(a)* Authorised | | |
| *(b)* Subscribed | | |
| *(c)* Paid-up | | |

(II) Pattern of shareholding in existing Paid-up Capital:

*(Amount in Rupees)*

| | | | |
|---|---|---|---|
| *(a)* Foreign holding | Equity | | Percentage |
| | Preference | | Percentage |
| *(b)* Non-resident Indian Company/Individual holding: | | | |
| *(i)* Repatriable | Equity | | Percentage |
| | Preference | | Percentage |
| *(ii)* Non-repatriable | Equity | | Percentage |
| | Preference | | Percentage |
| *(c)* Resident holding | Equity | | Percentage |
| | Preference | | Percentage |

*(d)* Total [*a* + *b*(*i* + *ii*) + *c*]

Equity [ ]

Preference [ ]

IV. (I) Proposed capital structure of the existing company, in case revision of existing capital structure is contemplated, or, if a new company is to be formed:

*(Amount in Rupees)*

| | Equity | Preference |
|---|---|---|
| *(a)* Authorised | | |
| *(b)* Subscribed | | |
| *(c)* Paid-up | | |

II. Pattern of share holding in the proposed Paid-up Capital:

*(Amount in Rupees)*

| | | Equity | Percentage |
|---|---|---|---|
| *(a)* Foreign holding | | | |
| | | Preference | Percentage |
| | | | |
| *(b)* Non-resident Indian(s) Company/Individual holding: | | | |
| | | Equity | Percentage |
| | *(i)* Repatriable | | |
| | | Preference | Percentage |
| | | | |
| | | Equity | Percentage |
| | *(ii)* Non-repatriable | | |
| | | Preference | Percentage |
| | | | |
| | | Equity | Percentage |
| *(c)* Resident holding | | | |
| | | Preference | Percentage |
| | | | |

*(d)* Total [*a* + *b* + (*i* + *ii*) + *c*]

Equity

Preference

V. Existing activities of the company:

VI. Items of manufacture or activities proposed to be undertaken with foreign collaboration (supplementary sheets may be used, if necessary):

*(a)* Item code [Indian Trade Classification (Harmonised system)]

*(b)* Item description

*(c)* Proposed Annual Capacity

*(d)* Unit of Capacity (Tonnes/Numbers/Meters/any others)

**VII.** Location of the Factory

Location and Address

District

State

Pin Code

**VIII.** Investment in Plant and Machinery:

*(Amount in Rupees)*

| | Existing | Proposed |
|---|---|---|
| *(i)* Indigenous | | |
| *(ii)* Imported: | | |
| *(a)* CIF value | | |
| *(b)* Landed Cost | | |
| *(iii)* Total [*(i)* + *(ii)(b)*] | | |

**IX.** Estimated annual requirement of imported raw materials at full production:

| *Value (in Rupees) (CIF)* | *Estimated ex-factory value of turnover* | *Percentage in relation to ex-factory value of turnover* |
|---|---|---|
| | | |

**X.** Estimated annual requirement of imported components:

| *Year* | *Value (in Rupees) (CIF)* | *Estimated ex-factory value of turnover (in Rupees)* | *Percentage in relation to ex-factory value of turnover* |
|---|---|---|---|
| 1st | | | |
| 2nd | | | |
| 3rd | | | |
| 4th | | | |
| 5th | | | |
| 6th | | | |
| 7th | | | |

**Note:** Please attach list of components to be imported.

**XI.** Foreign Investment:

*(a)* Financial collaborator:

Name ..................................

Address ..................................

..................................

Country ..................................

*(b)* Amount of foreign equity investment:

| Amount in rupees | Percentage of paid-up capital |
|---|---|
| | |

**XII.** Foreign Technology Agreement:

(a) Technical Collaborator:

Name ..........................................................

Address ..........................................................

..........................................................

Country ..........................................................

(b) Royalty on Sales:

| Sales | Percentage of Sales | Period |
|---|---|---|
| Domestic | | |
| Export | | |

| Please tick ( ) whichever is applicable |
|---|
| Inclusive of Taxes |
| Net of Taxes |

(c) Nature and quantum of lumpsum payments:

| Foreign currency | Amount of foreign exchange required | No. of instalments in which the payments will be made |
|---|---|---|
| | | |

| Please tick ( ) whichever is applicable |
|---|
| Inclusive of Taxes |
| Net of Taxes |

(i) Technical know-how fees

(ii) Payment for design/drawings

(iii) Payment for engineering services

(iv) Payment for use of patents, brand names, trade marks and the like

(v) Any other payment (Please specify the purpose)

**XIII.** Please indicate in brief:

(i) The back ground of the collaborator.

(ii) Technical specification/model numbers of the items of manufacture/activity covered by the scope of the proposed collaboration (Please attach product catalogues, if available).

(iii) Whether you have had a foreign collaboration earlier for the same or similar product.

(iv) Whether the foreign collaborator has collaborations with any other party in India for the same or similar products, if so, please furnish details.

**SS-12**

XIV. Export commitments/obligation which the applicant is prepared to undertake:
Item Code [ ]

| | *Years* | *Units (Tonnes/ Numbers/ Meters, any others)* | *Quantity* | *Percentage of Production* | *FOB value in Rupees* |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| 1st | | | | | |
| 2nd | | | | | |
| 3rd | | | | | |
| 4th | | | | | |
| 5th etc. | | | | | |
| Total | | | | | |

Please indicate details of buy back arrangement, if any.

XV. If the application is for extension of existing collaboration agreement or renewal of the already expired collaboration agreement:

(a) Please indicate the period for which the agreement has already run and attach the copy of the previous approval:

| *No. & Date of Govt. approval* | *Date of commencement of agreement* | | | *Date of expiry of agreement* | | |
|---|---|---|---|---|---|---|
| | *Date* | *Month* | *Year* | *Date* | *Month* | *Year* |
| | | | | | | |

| *Date* | *Month* | *Year* |
|---|---|---|
| | | |

(b) Justification for extension of the collaboration agreement with information about the status of absorption, adaptation and development of the technology already achieved:

(c) (i) Whether you have set up any R & D Cell to absorb the know-how and the progress achieved in the regard:

Yes [ ] No [ ]

(ii) If yes, please indicate the number and date of communication under which recognised by Department of Science and Technology/Department of Scientific and Industrial Research:

(iii) Expenditure on R & D facility set up (in Rupees) Amount of investment in fixed assets. Annual recurring expenditure.

(d) Total payment made so far (Net of taxes):

*(Amount in Rupees)*

(a) Lump sum

(b) Royalty

(c) Other payments, if any

**XVI.** (i) Total foreign exchange inflow during the period of proposed collaboration:

(Rupee equivalent)

(i) Foreign exchange earnings based on F.O.B. value of export obligations/ commitment.

(ii) Foreign exchange savings (C.I.F.) anticipated as a result of import substitution.

(iii) Total

(ii) Total foreign exchange outgo during the period of collaboration:

(i) Import of machinery and equipment (C.I.F.)

(ii) Import of raw materials (C.I.F.)

Import of components (C.I.F.)

Dividends and Profits (net of taxes)

Lump sum payments (net of taxes)

Royalty payments (net of taxes)

**XVII.** Expected date of commencement of commercial production:

**Date** **Month** **Year**

**XVIII.** Please indicate :

(a) The regional office of the RBI to whom a copy of the approval is to be endorsed:

.................................................................

.................................................................

(b) The name of the Authorised Dealer of Foreign Exchange concerned through whom the remittance of Technical know-how fees and royalty will be made:

Name ........................................................

Address ........................................................

........................................................

## Declaration

I/We hereby certify that the above statements are true and correct to the best of my/our knowledge and belief.

*(Signature of applicant)* .......................

*(Name in block letters)* .......................

*(Designation of the signatory)* ..................

*Place* ........................................

*Date* [ ] [ ] [ ]

*Date* *Month* *Year*

## Annexure 5

# *REQUIREMENTS AND PROCEDURE FOR SEEKING ENVIRONMENTAL CLEARANCE OF PROJECTS*

*(Issued by the Ministry of Environment and Forests, vide Notification No. 60(E); F. No. Z/12013/4/89-IA-1, dated 27th January, 1994).*

**SO 60(E)**—Whereas a Notification under clause *(a)* of sub-rule (3) of rule 5 of the Environment (Protection) Rules, 1986, inviting objections from the public within sixty days from the date of publication of the said notification, against the intention of the Central Government to impose restrictions and prohibitions on the expansion and modernisation of any activity of new projects being undertaken in any part of India unless environmental clearance has been accorded by the Central Government or the State Government in accordance with the procedure specified in that notification was published as SO No. 80(E), dated 28th January, 1993; and whereas, all objections received have been duly considered.

Now, therefore, in exercise of the powers conferred by sub-section (1) and clause *(v)* of sub-section (2) of section 3 of the Environment (Protection) Act, 1986 (29 of 1986), read with clause *(d)* of sub-rule (3) of rule 5 of the Environment (Protection) Rules, 1986, the Central Government hereby directs that on and from the date of publication of this notification in the Official Gazette expansion or modernisation of any activity, if pollution load is to exceed the existing one, or new project listed in Schedule-I to this notification, shall not be undertaken in any part of India unless it has been accorded environmental clearance by the Central Government in accordance with the procedure hereinafter specified in this notification:—

**2.** Requirements and procedure for seeking environmental clearance of projects:

I. *(a)*—Any person who desires to undertake any project in any part of India or the expansion or modernisation of any existing industry or project listed in the Schedule shall submit an application to the Secretary, Ministry of Environment and Forests, New Delhi. The application shall be made in the proforma specified in Schedule II to this notification and shall be accompanied by a detailed project report which shall, *inter alia*, include an Environment Impact Assessment Report and an Environment Management Plan prepared in accordance with the guidelines issued by the Central Government in the Ministry of Environment and Forests from time to time.

IV. In order to enable the IAA concerned to monitor effectively the implementation of the recommendations and conditions subject to which the environmental clearance has been given, the project authorities concerned shall submit a half-yearly report to the concerned agency. IAA will make compliance reports publicly available.

V. If no comments from the IAA received within the time limit, the project would be deemed to have been approved as proposed by project authorities.

3. Nothing contained in the Notification shall apply to:

   *(a)* any item falling under entry Nos. 3, 18 and 20 of the Schedule I to be located or proposed to be located in the areas covered by the Notifications SO No. 102(E), dated 1st February, 1989; SO 114(E), dated 20th February, 1991, and SO No. 319(E), dated 7th May, 1992;

   *(b)* any item falling under entry Nos. 1 to 5, 7, 9, 10, 12 to 14, 16, 17, 19, 25 and 27 of Schedule I, if the investments is less than Rs. 50 crores;

   *(c)* any item reserved for Small Scale Industrial Sector with investments less than Rs. 1 crore.

4. Concealing factual data or submission of false, misleading data/reports, decisions or recommendations would lead to the project being rejected. Approval, if granted, earlier, on the basis of false data, would also be revoked. Misleading and wrong information will cover the following:

   - False information.
   - False data.
   - Engineering reports.
   - Concealing of factual data.
   - False recommendations or decisions.

## SCHEDULE I

(*See* paras. 1 and 2)

### List of Projects Requiring Environmental Clearance from the Central Government

1. Nuclear power and related projects such as Heavy Water Plants, Nuclear fuel complex, rare earths.
2. River Valley projects including hydelpower, major irrigation and their combination including flood control.
3. Ports, Harbours, Airports (except minor ports and harbours).
4. Petroleum Refineries including crude and product pipelines.
5. Chemical Fertilizers (Nitrogenous and Phosphatic) other than single superphosphate).
6. Pesticides (Technical).
7. Petrochemical complexes (Both Olefinic and Aromatic) and Petrochemical intermediates such as DMT, Caprolactam LAB, etc., and production of basic plastics such as LLDPE, HPDE, PP, PVC.
8. Bulk drugs and Pharmaceuticals.
9. Exploration for oil and gas and their production, transportation and storage.

10. Synthetic rubber.
11. Asbestos and Asbestos products.
12. Hydrocyanic acid and its derivatives.
13. *(a)* Primary Metallurgical industries (such as production of Iron and Ste Aluminium, Copper, Zinc, Lead and Ferro-Alloys).
    *(b)* Electric arc furnaces (Mini Steel Plants).
14. Chlor alkali industry.
15. Integrated paint complex including manufacture of resins and basic raw materi required in the manufacture of paints.
16. Viscose Staple fibre and filament yarn.
17. Storage batteries integrated with manufacture of oxides of lead and lead antimo alloy.
18. All tourism projects between 200-500 meters of high Water Line and at locatic with elevation of more than 1000 metres with investment of more than Rs. 5 cror
19. Thermal power plants.
20. Mining projects (with leases more than 5 hectares).
21. Highway Projects.
22. Tarred Roads in Himalayas and/or forest areas.
23. Distilleries.
24. Raw Skins and Hides.
25. Pulp, paper and newsprint.
26. Dyes.
27. Cement.
28. Foundries (individual).
29. Electroplating.

## SCHEDULE II

(*See* Sub-Para. 1*(a)* of Para. 3)

### Application Form

1. *(a)* Name and address of the project proposed:
   *(b)* Location of the project:
   Name of the Place:
   District, Tehsil:
   Latitude/longitude:
   Nearest Airport/Railway Station:
   *(c)* Alternate sites examined and the reasons for selecting the proposed site:
   *(d)* Does the site conform to stipulated land use as per local land use plan:
2. Objectives of the project:
3. *(a)* Land requirement:
   Agriculture Land:
   Forest land and density of vegetation:

8. Power requirement indicating source of supply: Complete environmental details to be furnished separately, if captive power unit proposed:
9. Peak labour force to be employed giving details of:
   - Endemic health problems in the area due to waste water/air/soil borne diseases:
   - Health care system existing and proposed:
10. *(a)* Number of village and population to be displaced:
    *(b)* Rehabilitation Master Plan:
11. Risk assessment report and Disaster Management Plan:
12. *(a)* Environment Impact Assessment:
    *(b)* Environment Management Plan:
    *(c)* Detailed Feasibility Report:
    *(d)* Duly filled in questionnaire:
    ] Report prepared as per guidelines from time to time.
13. Details of Environmental Management Cell:

I hereby give an undertaking that the data and information given above are true to the best of my knowledge and belief and I am aware that if any part of the data/information submitted is found to be false or misleading at any stage, the project be rejected and the clearance given, if any, to the project is likely to be revoked at our risk and cost.

*Signature of the applicant*
*with name and full address.*

*Date:* . . . . . . . . . . . . . . . . . .

*Place:* . . . . . . . . . . . . . . . . . .

*Given under the seal of Organisation*
*on behalf of whom the applicant is signing.*

In respect to item for which data are not required or is not available as per the declaration of project proponent, the project would be considered on that basis.

## SCHEDULE III

(*See* Sub-Para. III*(a)* of Para. 3)

### Composition of the Expert Committees for Environmental Impact Assessment

1. The evaluation and assessment of development projects at the Central or State level will be undertaken by Experts Committee consisting of experts in each discipline constituted as under:
   *(i)* Eco-system Management.
   *(ii)* Air/Water Pollution Control.
   *(iii)* Water resource management.
   *(iv)* Flora/Fauna conservation and management.
   *(v)* Land Use Planning.
   *(vi)* Social Sciences/Rehabilitation.

(*vii*) Project Appraisal.

(*viii*) Ecology.

(*ix*) Environmental Health.

(*x*) Subject Area Specialists.

(*xi*) Representatives on NGOs/persons concerned with environmental issue.

2. The chairman will be outstanding and experienced ecologist or environmentalist or technical professional or wide managerial experience in the relevant development sector.
3. The representative of IAA/Central/State will act as a member secretary.
4. Chairman and Members will serve in their individual capacities except those specifically nominated as representatives.
5. The Membership of a Committee shall not exceed 15.

## PART B

*To be submitted at the time of commencement of commercial production to the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion, Udyog Bhawan, New Delhi-110 011, in six (6) copies*

I. Reference No. :

II. Actual date of commencement : ☐☐ ☐☐ ☐☐☐☐

III. Actual investment :

| | *Existing* (Amount in Rupees) | *Proposed* (Amount in Rupees) |
|---|---|---|
| (a) Land (for rented premises capitalised value of the same to be indicated) | | |
| (b) Building | | |
| (c) Plant and Machinery | | |
| (i) Indigenous | | |
| (ii) Imported | | |
| (a) CIF value | | |
| (b) Landed cost | | |
| (iii) Total [(i)+(ii)(b)] | | |

IV. Item(s) of Manufacture : In case of more than one item supplementary sheets may be attached.

*NIC No.

*ITC Code

Proposed annual capacity

Existing capacity, (if applicable)

Total capacity after expansion

Unit of capacity

V. Employment :

| | *Proposed* | *Actual* |
|---|---|---|
| (a) Supervisory | | |
| (b) Non-Supervisory | | |

....................
*Signature of promoter(s)*

*Place* ....................

....................
*(Name in block letters)*

....................
*(Designation of promoter)*

☐☐ ☐☐ ☐☐☐☐
*Date* *Month* *Year*

* To be filled wherever applicable

(2) Please indicate whether the proposed location is—

(a) Within 25 kms. from the periphery of a city having population above one million according to 1991 Census ?

☐ Yes ☐ No

## Annexure 6

# *APPLICATION FOR COB LICENCE*

***[FORM EE]**

*(COB Application Form)*

**Application for Licence or Permission**

This form is to be used in the following cases:

(1) Where an industrial undertaking which was required to be registered under section 10 but has not been registered within the time fixed for the purpose, proposes to carry on the business of that undertaking after the expiry of such period [*vide* clause *(a)* of sub-section 13 of the Act].

(2) Where an industrial undertaking the registration in respect of which has been revoked under section 10A proposes to carry on the business of the undertaking after the revocation [*vide* clause *(b)* of sub-section (1) of section 13 of the Act].

(3) Where an industrial undertaking to which the provisions of the Act did not originally apply but became applicable after the commencement of the Act for any reason, proposes to carry on the business of the undertaking after the expiry of three months from the date on which the provisions of the Act became so applicable [*vide* clause *(c)* of sub-section (1) of section 13 of the Act].

(4) Where an industrial undertaking to which the provisions of section 10, section 11, section 11A, or clause *(d)* of sub-section (1) of section 13 of the Act did not originally apply on account of an exemption order issued under section 29B of the Act, but became applicable thereafter as a result of the cancellation of the exemption order, proposes to carry on the business of the undertaking after the expiry of such period as may be specified in the notification cancelling the exemption.

**Note:**—Particulars given below should show the position as on the date of application unless otherwise directed in the questionnaire.

1. Name and address of the applicant.
2. Name of the industrial undertaking.

   Address:

   *(a)* Head office:

   *(b)* Factory or factories:

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* Retained by the Government of India (Ministry of Industrial Development) for use as application form for COB licences, *vide* Press Note No. 1/EAU/74, dated 2nd March, 1974.

3. Ownership.
4. Names of proprietors, partners or Board of Directors and their addresses:
5. Name and address of the owner of the undertaking in terms of section 3*(f)* of the Act:
6. The scheduled industry or industries to which the articles manufactured or produced relate:
7. Capital structure:
   *(a)* In the case of companies registered under Indian Companies Act, 1913.

| | *Number* | *Value* | *Total* |
|---|---|---|---|
| *(i)* Authorised capital— | | | |
| Preference shares | | | |
| Ordinary shares | | | |
| Deferred shares | | | |
| Any other class of shares. | | | |
| *(ii)* Issued capital— | | | |
| Preference shares | | | |
| Ordinary shares | | | |
| Deferred shares | | | |
| Any other class of shares. | | | |
| *(iii)* Paid-up capital— | | | |
| Preference shares | | | |
| Ordinary shares | | | |
| Deferred shares | | | |
| Any other class of shares. | | | |
| *(iv)* Debentures: | | | |
| *(v)* Other borrowings: | | | |

   *(b)* In the case of others—
      *(i)* Capital invested by the owner excluding borrowings.
      *(ii)* Shares of each of the partners or of members of an association.
      *(iii)* Borrowings:
8. Name and address of Managing Agents, if any, and the principal clauses of the managing agency agreement.
9. A copy each of the last three years' balance sheets and profit and loss accounts. (to be attached to each copy of the application).
10. *(a)* Foreign capital invested. Terms of agreement, if any, with foreign collaborator including terms in regard to royalty, etc.
    *(b)* Details of foreign technicians employed.
11. *Approximate land under control of the undertaking:
    (1) for factory and administration purposes:
       *(a)* in use
       *(b)* available for expansion
    (2) for township and other facilities:
       *(a)* in use
       *(b)* available for expansion

* This is not applicable to mining concerns.

18. Staff and labour employed: *Head office* *Factory* *Total*

(*a*) Managerial:

(*b*) Supervisory:
Technical
Non-technical

(*c*) Clerical:

(*d*) Labour:
Skilled
Semi-skilled
Unskilled

(*e*) Other categories, if any—

19. (*a*) Whether any application was made for the registration of this undertaking under the Industries (Development and Regulation) Act, 1951? Give particulars of the No. and the date of the application and of the reply thereto.

(*b*) If no application was made for the registration of this undertaking, give the reasons therefor.

20. Whether the registration of this undertaking has previously been revoked under section 10A of the Act. If so, give particulars of the letter of revocation.

21. Give the following particulars regarding your industrial undertaking as on 8th May, 1952, or as on 1st October, 1953, or 1st March 1957, according as (*a*), or (*b*), or clause (*bb*) of section 3 of the Act, applies to your case.

(*i*) The total number of staff and labour employed in the factory and head office.

(*ii*) Articles manufactured.

22. If sub-section (2) of section 29B of the Act, applies to your undertaking, give the following particulars:

(1) Number and date of the exemption order issued under section 29B of the Act in pursuance of which you did not apply for registration under section 10 or for licence under section 11, section 11A or sub-section (1) of section 13 of the Act in respect of your undertaking.

(2) (*a*) Date on which your industrial undertaking came into production.

(*b*) Articles manufactured on the above date.

(*c*) Monthly capacity of each of the articles manufactured.

(*d*) Number of staff and labour employed in the factory.

(3) (*a*) Whether subsequent to the establishment of the industrial undertaking, the capacity of any of the articles manufactured therein has been expanded or any "new articles" have been manufactured.

(*b*) If the answer to the above is in the affirmative, give particulars of:

(*i*) the expansion of the capacity effected;

(*ii*) the capacity of the 'new articles' if any manufactured; and

(*iii*) number of staff and labour employed in respect of the above.

23. Indicate the estimated requirements of fixed assets, *i.e.*, investment in land, building and machinery.

| | | | | |
|---|---|---|---|---|
| Land | ..... | ..... | ..... | ..... |
| Building | ..... | ..... | ..... | ..... |
| Machinery | ..... | ..... | ..... | ..... |

**Note:**—Where the land and/or building is rented, the capitalised value of the same may be give.

*Place* . . . . . . . . . . . . . . . . . .

*Date* . . . . . . . . . . . . . . . . . .

*Signature of the applicant.*

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(To be filled in by the Government of India)

*Date of receipt of the application.*

*Signature of the Receiving Officer.*

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